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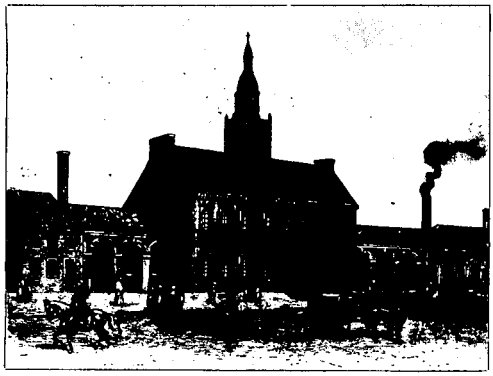
M. E. Bradford



The State House, Philadelphia, where the Convention was held.

Not So Democratic: The Caution of the Framers

It has been my pleasure for the past several months to read through the written remains of the Framers of our form of government and to live by an act of will and imagination in something like the intellectual atmosphere which enveloped their deliberations in Philadelphia and in the state ratification conventions called for by the results of the Great Convention.

On two occasions in recent years I have had the opportunity to visit the City of Brotherly Love and to examine what survives there of the charming provincial Capital, known to John Dickinson, Robert Morris, and Benjamin Franklin as their home. This experience helped me a good deal in penetrating the barriers created by the two intervening centuries in our history as a people. Even so, I am in this work constantly made aware of the danger of anachronism—of the size of the gulf that separates us from the serenity and reasonableness and anti-ideological caution of the Fathers. But in one respect I believe I have identified a feature of their thought visible in particular during the Constitutional Convention that is hidden from us by the accepted myth of our national beginnings: a feature which we might do well to recover and apply in restoring the Republic to its original character.

It is important for us to remember when we examine the Constitution made in Philadelphia that it was

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This article stems from research and writing Dr. Bradford is doing as co-editor of a new and revised edition of Elliot's *Debates* to be published shortly by Liberty*Classics*.

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written before the French Revolution occurred and that the education of its authors was English and classical: principally an education in history, Roman literature, and law.

The upper reaches of metaphysical speculation concerning the nature of man and the possibility of creating a perfect Commonwealth for him to inhabit was not an important element in the political deliberations of the English Old Whigs or their progeny, the original American republicans. True enough, a few of them had read Hobbes and Locke and, more importantly, Montesquieu and David Hume. But what they learned from these authorities was in most cases understood to be only a gloss upon the historic rights of Englishmen and the history of English liberty out of which they had made a Revolution. The most important evidence in support of this understanding of their habits of mind comes from the way in which they treated the hypothetical imperative to what James Wilson of Pennsylvania, in speaking for the radical minority in the Convention, referred to as the "inherent, indisputable, and unalienable rights of men," to a kind of equality in political rights.[1]

It is true, of course, that the Framers often conceded that men were equal in a "state of nature": equally ungoverned and equally unprotected. But some of them also maintained, as did Calhoun later, that the unpleasant and hypothetical condition thus described was a mischievous abstraction and that the truly natural state for man, as opposed to that of beasts, was social: art being, as Burke taught, man's nature. What signifies in the reaction of the Framers to the appeals by Wilson and, to a certain extent, Madison, to a doctrine specifying the political equality of citizens in the Republic they were shaping from the raw materials of the Articles of Confederation and the extant and stubborn identities of the states is that they ignored them altogether.

Departures from Equality

I invite you to consider with me the many ways in which the "rights of man" are violated in the document agreed to in Philadelphia. The most important of these has to do with the "great compromise," so called: the provision that one house of the national legislature should give an equal vote to each of the states, regardless of its size or population; and the attendant provision that every state should have at least one Congressman, regardless of its population. Not every delegate who opposed the insistence of the small states on this formula was a serious devotee of "natural rights." Some were interested simply in the political influence of their own states. But the delegates from the smaller com-

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monwealths made it quite clear that they were going home if they were not given their own way in this particular.

The prudence of such compromising spirits as Benjamin Franklin, who was ideological about almost nothing, intruded at this point. The old freethinker, always ready to make it up as he went along, called upon his colleagues to invite a minister to come and pray over their deliberations. The larger states continued to grumble, but recognized necessity. Later, another violation of equal rights—in this case of the rights of posterity—was added to confirm the compromise over legislative representation. I refer here to the provision of the Constitution which precludes any amendment at some future date that would deprive any state of its equal voice in the United States Senate.

Of course, the provision for state equality in the Senate goes against the sacrosanct doctrine of majority rule. But that is precisely what the Framers wished it to do. And they followed the same principle in most of the important sections of the Constitution. The rule requiring a ⅔ vote of both Houses of Congress and a ¾ vote of the states to amend the Constitution (the rule which has thus far prevented the adoption of the ERA, and which will, without doubt, prevent the conversion of the District of Columbia into a state by giving it seats in the Senate) gives an unequal weight to the vote of the first generation of Americans who accepted the Constitution, and to opponents of such changes in the succeeding generations.

The same holds true for the ⅔ rule with regard to the overriding of a Presidential veto, the ⅔ rule for the confirmation of ambassadors, justices of the Supreme Court and "of all other officers of the United States, whose appointments are not . . . otherwise provided for"[2]; and the ⅔ rule in cases of impeachment, expulsion of members in the House or Senate, and the validation of treaties.

Voting Power

Allowing the House of Representatives and the Senate to make their own rules concerning the limitation of debate has, as we all know, been another restriction upon the will of the simple majority in the operation of our political system—and, I might add, a good one. So was the provision in the original Constitution which allowed for the election of United States Senators by the state legislatures or in any other fashion the states thought proper.

The much abused Electoral College works to the same effect and has, we should remember, produced several minority Presidents. If New York or California decide by one vote to send electors in favor of Candidate X, and Texas and Pennsylvania

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decide by the margin of, shall we say, a million to commit their representatives in the Electoral College to Candidate Y, the results of such disparity will not be reflected in the number of votes given in the only election that counts to the respective candidates. Our Presidents are elected by the people of the states, acting separately, but in unison. Simple plebiscitary democracy as proposed in some suggestions that we abolish the College goes against the tenor of the United States Constitution as a whole, and makes this mistake precisely because its proponents imagine that equality of individual political rights was the regnant abstraction in the political lexicon of the Fathers.

Other Departures from the Doctrine of Majority Rule

Four other examples of the indifference of the Framers to the doctrine of majority rule are (1) the provision in the Constitution for the election of the President by the House of Representatives with each state casting one vote in the case of a deadlock in the Electoral College; (2) the process by which the Constitutional Convention itself was called; (3) the manner in which the Convention voted, with each state having one vote; and (4) the way in which the Constitution was adopted, the equivalent of the way in which it may be modified today.

But there are often overlooked and more serious contradictions of the gospel of equality buried in the Constitution that go beyond mere restraints upon the will of the majority. Some of these are obvious, such as the protections for the institution of Negro slavery in the Fugitive Slave clause, the twenty-year extension of the slave trade, and the ⅗ formula for the representation of slaves in determining the voting strength of the South in the House of Representatives. It is noteworthy that no member of the Convention entertained any idea that the institution of slavery, as it stood within the various states, could be affected or threatened by the instrument of government that they hoped to create.

Slavery Condoned

A majority of the fifty-five members of the Constitutional Convention owned slaves. Farrand tells us that slavery was "accepted" by the Framers "as part of the established order,"[3] and that they did not provide any procedure for its eventual extinction. On the contrary, some Northern members of the Convention complained (and perhaps rightfully) that the ⅗ formula allowed the South to increase its political power by the mere expedient of purchasing slaves. Twenty years was thought enough time to facilitate the importation of all the Negroes

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the South could possibly need, and almost suggests that such purchases were to be encouraged.

In the specific exclusion of Indians from the calculation of the census, equality is once again contradicted. And in the provisions requiring a certain age or status as citizen as a precondition for holding office, a political onus is attached to youth and foreign birth.

But far more important are the inequalities left to the discretion of the states. Qualification for the franchise, as was agreed by the members of the Convention after much debate, was to be determined in the several commonwealths and was not to be meddled with by any component of the national power. One is fully a citizen of the United States by being a citizen of one of its member states.

No less a Federalist than James Madison developed this distinction when serving as a Congressman from Virginia during Washington's administration. The discussion concerned the right of one William L. Smith of South Carolina to hold the seat as Representative from South Carolina to which he had been elected. The dispute arose because he had been overseas during the years of the Revolution. Madison's argument was uncomplicated. Representative Smith had never ceased to be a member of the society into which he had been born. Therefore, he became a citizen of the United States when South Carolina came into the Union.

Let the States Decide

That American citizens living in territories and possessions of the Republic and in the District of Columbia do not vote in Federal elections (except, according to a recent change, for President in the District) unless they vote by absentee ballot in one of the states, is evidence to the same effect. Political citizenship for representation in Congress is not within the gift of the government of the United States, or so the Framers intended. Indeed, the states were left by the original Constitution with the authority to impose a religious test for office. The First Amendment did not alter this prerogative, as it left untouched the state-supported religious establishments surviving in such places as Massachusetts and Connecticut. All that the amendment provided was that there should be no federally established church for the entire Union. This situation was modified with the Fourteenth Amendment. But Indians were still exempted from its protection. And Prof. Raoul Berger, in his *Government by Judiciary*, has taught us to read even that innovation in our fundamental law as less drastic than some of our advanced thinkers would imagine.[4]

Most of the Framers, including

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even such generous spirits as George Mason, expected the states to provide for a property qualification as a condition of the franchise. The one mentioned most often is drawn from English law, that of the "50 shilling freeholder." For it was their consensus that a man (and we all know the Constitution gave no political rights to women) should have a stake in the society before he was given the right to have an influence over its future.

What propertyless men might do with their votes was the nightmare before the house when the Great Convention assembled in Philadelphia. They called this nightmare by a simple name—democracy. And they connected that term of pejoration, an anathema with over half of the fifty-five members there gathered, with the rebellion in western Massachusetts led in the previous year by one Captain Daniel Shays. The overtly anti-democratic spirit of the Framers is to the uninitiated reader of the records of their proceedings the greatest possible surprise.

Fear of Democracy

In one sense, the fear of democracy and of the despotism that was likely to come after it is the "given" of the Great Convention. Almost as soon as the meeting convened and the Virginia delegation got control of the chair and then placed its plan of government before the house as its first order of business, Elbridge Gerry of Massachusetts (at this point in his career, as vigorous a republican as could be found) asserted that "the evils we experience flow from the excess of democracy," and urged his colleagues to be "taught by experience the danger of the leveling spirit." Governor Edmund Randolph, the spokesman for the Virginia Plan, picked up Gerry's theme and urged the adoption of his resolutions as a counter to the "turbulence and follies of democracy" in which every "evil" of government under the Articles found its "origin."[5] And more of the same is to be heard throughout these debates.

General Washington had come to the Convention expressing the hope that New England would eschew those "leveling principles" that had made her men so difficult to command. Madison said the same in his letters. We have all heard what Hamilton called the people—"that great beast." Gouverneur Morris described them as a "reptile," and had added, "he who wishes to enjoy natural Rights must establish himself where natural Rights are admitted. He must live alone."[6] And Rufus King of Massachusetts announced the opinion that "the unnatural Genius of Equality [is] the arch Enemy of the moral world."[7]

If these sayings of our political forefathers do not sound like what

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the myth has taught us to expect, the text of the Constitution should persuade us that the statements were in character and are reflected in the most significant kind of action, the drafting of a fundamental law.

A Religious Restraint

The Framers were, again contrary to the myth, a body of religious men, sceptical concerning human nature, particularly of its collective manifestations. Only four or five of the Framers were Deists, and even they, as for instance Franklin, were undogmatic about politics, devoted to no vast, *a priori* scheme. The caution of David Hume and the pessimism of St. Paul can have the same political results. Experience, as gathered in history and prescription, was, in the eyes of the Framers, the proper guide in political questions, as in most others. At the end of the Convention with the finished document on the table before them, the venerable Franklin bespoke the caution of the entire Assembly when he asked each of his colleagues to "doubt a little of his own infallibility."[8]

It was a fine thing to tinker with a stove or even to invent a city, and especially so if the stove and the city were what people wanted, and what circumstances either required or allowed. But the secular religion of an ideology, the mindset which we associate with a Robespierre or a Marx, would not have been well received in Independence Hall during those hot late spring and summer months of 1787. The very physical appearance of the place and of the buildings surviving from the community which then surrounded it should tell us that. What they say iconically is that extremists are not in the proper style.

No Sudden Shifts of Power

The culture of the English Enlightenment shared by the authors of our Constitution was essentially anti-rationalistic, anti-metaphysical. "Enthusiasm" was the opposite of what they meant by philosophy. And large-scale theories of human rights are "enthusiastic." They threaten property and the going social order, opening the way to a situation in which men like Captain Shays might replace the natural leaders, the men of virtue; confiscate and distribute everything in sight. Such a prospect frightened the Framers into altering the form of government established in the Articles, providing for an authority to check all such rebellions, even if they were peaceful and political. And certainly if they offered violence.

However, since our country crossed the Great Divide of the War Between the States, it has been more and more the habit of our historians, jurists, and political scientists to read the Continental Enlightenment, and

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the Age of Revolution that was its political consequence, back into the record of our national beginnings by way of an anachronistic gloss upon the Declaration of Independence.

I will not here belabor the vexed question of how we might best interpret the Declaration, as I have already said enough on that subject in another context.[9] But my argument on this occasion does demonstrate that whatever the Declaration meant to Thomas Jefferson or later to Abraham Lincoln, the "political religion" of equality got short shrift from the men who wrote our Constitution. And the Constitution, not the Declaration, is law. It provides that our government follow the deliberate sense of the American people. As the South has always recognized, concern for minority rights is not the major explanation for its anti-egalitarian features, but rather a determination that the majorities with power to change the law be very large indeed.

The Constitution makes it difficult or even impossible for us to alter our political identity on whim or when momentarily carried away by the adjuration of demagogues. But it allows, indeed requires, that we hammer out a consensus on the important things affecting a very limited public sphere, working under the shadow and from the example of those judicious men who first set the great engine of our government in motion. To keep it running, we must remember how and why it was made.

—FOOTNOTES—

[1]James Madison, *Notes of Debates in the Federal Convention of 1787* (Athens: Ohio University Press, 1966), p. 221.

[2]U.S. Constitution, Article I, Section 2.

[3]Max Farrand, *The Fathers of the Constitution: A Chronicle of the Establishment of the Union* (New Haven: Yale University Press, 1912), p. 130.

[4]Suffrage for the freedman is not contemplated in the Fourteenth Amendment, which explains subsequent Republican enthusiasm for the Fifteenth Amendment—once the party began to lose its white support.

[5]Madison, *Notes*, pp. 39 and 42. See also p. 658, where Gerry calls democracy "the worst . . . of all political evils."

[6]Max M. Mintz, *Gouverneur Morris and the American Revolution* (Norman: University of Oklahoma Press, 1970), p. 73.

[7]Robert Ernst, *Rufus King: American Federalist* (Chapel Hill: University of North Carolina Press, 1968), p. 299.

[8]Madison, *Notes*, p. 654.

[9]M. E. Bradford, "The Heresy of Equality: A Reply to Harry Jaffa," on pp. 29–57 of *A Better Guide Than Reason* (La Salle, Ill.: Sherwood Sugden & Co., 1979).

IDEAS ON LIBERTY

Alexander Hamilton

INEQUALITY will exist as long as liberty exists. It unavoidably results from that very liberty itself.

On the floor of the Constitutional Convention, June 26, 1787

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Fred DeArmond

Signs of the Times

THIS AGE in which we are living has been described in a copious flow of superlatives, pro and con. To repeat from Charles Dickens's well-known opening paragraph in *A Tale of Two Cities,* a novel of the French Revolution and relating to the European scene about 1789, would be understating the case for the 1970s and 1980s: "It was the best of times, it was the worst of times, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair. . . ."

Many of our top thinkers have tried to answer the persistent query: What principally does distinguish these times from all those that went before? One conspicuous answer was that of André Malraux, elderly French author and Minister of State for Cultural Affairs under President Charles de Gaulle back in the 1960s. His answer was reported and analyzed by journalist and theatrical manager Guy Suares in his book, *Malraux—Past, Present, and Future* (Little, Brown & Co., 1974).

Malraux said at that time that the first and most distinguishing mark of the existing Western civilization is "a violent sense of transience." His second identification, "a civilization without recognized values," is clearly related to this "violent sense of transience." Values—moral, practical and intellectual—are sub-

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sumed in the new thought. That judgment has been echoed by many sources. Environmental changes are cataclysmic, involving mob psychology, erratic leadership methods, public administrative chaos, and arbitrary judicial processes. Pursued with misguided zeal, these aberrations have fed the flames of transition through which the world is whizzing.

The courts, which should be a stabilizing influence, are in reality upsetting long-cherished traditions on the theory that law and government are constantly changing almost everything, "to keep up with the times." The U.S. Supreme Court in an infamous eight-to-one decision reversed the trial conviction of a brutal murderer because there had not been, as the defense claimed, enough women on the trial jury to assure a gender balance. The same body legalized abortion and even ordered that pregnant women who resort to this procedure shall, if they are indigent, have the expense borne by the federal government.

That judicial colossus, through its district judges, presumes to direct a local school board far from the seat of authority how to manage its own schools. There is talk that the courts will force Amtrak to cancel its special low fares for children on the ground of discrimination. In the name of making every citizen equal in every respect—the one-man, one-vote principle—Washington seized controls constitutionally intended to be exercised by state and municipal authorities or by employers and state and municipal bodies.

The courts are now freely approving faked insanity pleas as excuses for the most flagrant crimes. Result: dangerous, mad-dog criminals released to make the streets and roads unsafe for honest citizens. A Congress that had condemned a President for his candor in private conversations, as recorded on confiscated tapes, fails to impose a penalty on certain of its own members convicted of accepting bribes from a foreign government.

A Mobile Population

More than forty per cent of Americans are said to change their place of residence annually—another form of transience. Many of the names on world maps have been changed by the dictates of politics, until any world atlas as much as twenty years old is quite out of date.

In his epochal books on economics, John Maynard Keynes attempted to contradict and subvert the basic truths of economic life. Dr. Karl Menninger, riding on a wave of popularity as the people's psychiatrist, preached that the punishment of crime is itself worse than the actions for which criminals are punished. Two educators of some note lent themselves to the authorship of a

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book, one principle of which is the silly assertion that the ability to read well is not essential to a liberal education (Postman and Weingartner, *The School Book,* Delacorte Press, 1973).

There are foreboding signs in the Judeo-Christian world of the abandonment of the Ten Commandments. This would be in the presumed interest of keeping up with progress. Reservations are needed, we hear, to construct a platform broad enough for any religious man or woman to stand on. It might change No. 8 to, "Thou shalt not steal from a poor man." You may be sure that some "improvements" in the interest of liberal "realism" would be edited into No. 7, which prohibits adultery, in order to assuage the consciences of impious but uneasy moderns.

Americans and some other contemporaries seem to be wholly obsessed with the notion that all change is necessarily progress. They blandly assume that individual freedom can be realized only in a democracy, and that a pure democracy is the standard system of approach to perfection, regardless of the stage of civilization reached by a populace.

André Malraux believed there is a third distinguishing factor in the present Western civilization. It is "a civilization cut off from the cosmos"—from all that has gone before us. We have inherited so much from earlier ages that our leading minds seem incapable of assimilating it all. Have we gone as far as science can take us? We have walked on the moon; now what is next—to jump off into suicide?

The Greek civilization was linked to the past by its gods. While Christian civilization "at its height provides strong links between man and the Christian Cosmos," our culture has culminated in Marxism, according to Malraux.

Although not named in the Suares interview, it appears there is another distinction that especially marks the times in which we live. That is the supreme ego of the dominant generation of today. In no earlier annals of the past that I have scanned are found the condescension of assumed superiority manifested by most spokesmen of our times.

Modern Prophets Much Indebted to Pioneers

To read or listen to the modern prophets in a believing spirit is to view our contemporary scientific, philosophical, and literary giants as the voices of a new and greater race of the *genus homo.* Usually they make little or no acknowledgment of the enormous debt owed to the pioneer thinkers going back through Herbert Spencer, Petrarch, and all the others even to Aristotle. Einstein's "discovery" of relativity was

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made from his perch on the broad shoulders of Galileo. The recent squad of physicists who saw and demonstrated the awesome possibilities in splitting the atom had for their start the work done by John Dalton, Hendrik Lorentz, and a long catalogue of others. Even Lucretius, the Roman poet of the first century B.C., knew about the atom and something of its potential for good or evil.

There are palpable signs in the United States of this increasingly "violent sense of transience." They are more visible to the elders who have lived long enough to appraise soundly the mental balance of maturity. An example of change in the right direction is the current recognition of Alexander Hamilton, subject of a recent new biography by Forrest McDonald (Norton). More than any other thinker of his time, Hamilton conceived the enormous potential of his country as a vast industrial world force. This recognition is all the more remarkable in that such insight comes notwithstanding the doom chorus from wordy liberals who never have understood the America conceived by Hamilton, Madison, Franklin, and their associates in our national Hall of Fame.

Change is inevitable, although aggravated by that old, hungry, egalitarian urge that tends to distort human motives. The ideal in government, industry, family life, and "the pursuit of happiness" generally is collective stability. The best signs of these times are those that point toward restoration of that essentially stable society, the framework of which our late 18th century wise men provided. The United States is tough and can take punishment. It can realize the thwarted hopes of the best minds of 1787 through the present exercise of restraint, balance, and some timely sacrifice.

IDEAS ON LIBERTY

Foundations of Progress

THE COMMON MAN, finding himself in a world so excellent, technically and socially, believes it has been produced by nature, and never thinks of the personal efforts of highly endowed individuals which the creation of this new world presupposed. Still less will he admit the notion that all these facilities still require the support of certain difficult human virtues, the least failure of which would cause the rapid disappearance of the whole magnificent edifice.

JOSÉ ORTEGA Y GASSET

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Donald J. Senese

Government Intervention Creates Chaos, Not Jobs

STUDENTS OF HISTORY are familiar with the significant truth embodied in the often quoted remark of the writer and philosopher George Santayana in his work *The Life of Reason:* "Those who cannot remember the past are condemned to repeat it." This axiom holds true for those proponents of governmental interventionism in the economy who view government as the instrument to bring economic prosperity through government-sponsored jobs creation and job training programs.

The proponents of this economic interventionism use a variety of approaches to involve government in the market place—vocational training, public service employment, on-the-job training, institutional training, work experience, and job placement programs. These attempts to replace the operation of the market economy with government interventionism have gone under a variety of names including the Civilian Conservation Corps, the Works Progress Administration, the Job Corps, and the latest version, the Comprehensive Employment and Training Act jobs program.

All of these attempts over the years have violated a basic concept of our constitutional form of government—the moral freedom of the individual to participate in the market place without excessive governmental coercion or regulation. We can better understand the fallacy of this approach by examining the interventionist philosophy which motivates it, why such efforts fail, and the need

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to resist such interventionism if we are to maintain man's essential freedom and the operation of the free enterprise system.

The Interventionist Philosophy

The major impetus for government-sponsored employment and training for employment programs has been the economic philosophy of John Maynard Keynes, which has been prevalent in United States economic policy for almost the past half century. Keynes, who put forth his views in *The General Theory of Employment, Interest and Money,* advocated income redistribution and supported efforts by the central government at jobs creation.

The thrust of *The General Theory* revealed opposition to the assumption that in a society based on free enterprise there were mechanisms of adjustment which automatically produced the conditions for full employment for workers and resources for productive employment. The author made it clear that he lacked confidence in the ability of competitive markets to expand employment and production.

Keynes viewed unemployment and economic depressions as the result of a deficiency of aggregate demand for goods and services. One way to stimulate aggregate demand, he reasoned, is through government expenditures which would have a multiplier effect on the economy. An increase in government spending without an increase in taxes was equivalent in effect, Keynes asserted, to an autonomous expansion of private investment.

While preferring that government spending should be on projects which he deemed of "social utility" (e.g., schools, parks, public housing), the important element in Keynes' economic philosophy focused on the necessity of government spending to aid the whole economy. And even if the unemployed were put to work on jobs which appeared useless for the growth of the economy (e.g., ditch-digging, leaf-raking), the incomes of these workers would be used to buy products (e.g., clothing, food) which would help stimulate the economy. Keynes thus accepted the myth that government, by spending the resources of its citizens, could spend itself to prosperity.

According to Keynes, a central government, through public works and other expenditures, could help stimulate the economy despite increased inflation and budget deficits. Rejecting the traditional economic wisdom of the dangers of excessive governmental spending and the need to accumulate savings in the economy, Keynes had developed a new theory of employment and income which had as its consequence a whole series of public policies focusing on the need for governmental intervention to deal with

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unemployment in a free enterprise economy.

During the depression of the 1930s, federal spending had been used extensively to combat unemployment by creating jobs in the public sector and providing training to the unemployed. Despite little evidence of success, the programs were continued and even grew larger and larger. Yet, it was in the post-World War II period that the Keynesian influence had its greatest impact on United States economic policy.

Keynesian Policies Fail

Successive U.S. presidential administrations have turned to government spending for employment training and jobs creation despite budget deficits and, indirectly, the inflation it creates. And as the economists James D. Gwartney and Richard L. Stroup have reminded us, the Keynesian macroeconomic thinking established the foundation for the policies which provided the United States with the inflation, unemployment, and stagnation of the 1970s.[1]

The experience with Keynesian economics has been a disappointing failure for the U.S. economy. These expansionist policies (including inflation, high taxes, budget deficits, and rapid growth in the money supply) have not promoted full employment or even economic growth. That great economist Hans F. Sennholz has reminded us that a tax burden which is heavy during a period of expansion becomes destructive during stagnation and decline. Rather than helping the working man, these misguided policies have hurt him, failed to provide significant employment for the unemployed, and placed a drain on the economy which has resulted in a decline in the American standard of living.[2]

Advocates of the Keynesian policies reveal an ignorance of economics which confuses the short-term and the long-term results for a nation which follows Keynesian economic policies. While policies which seek to accelerate demand beyond the expectations of buyers and sellers may reduce the short-term rate of unemployment, the result of such inflationary policies in the long run is to increase the economic problems of a society, leading to high rates of both inflation and unemployment.

Why Employment Programs Fail

Despite the rhetoric of government officials that government-created jobs have added "X" number of jobs to the economy, a closer examination reveals the fallacy of this claim and the inevitable failure of such programs to improve the economy.

Work is the process of forming capital such as goods and services for future consumption. There are two economies in which people may

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work: (1) a barter economy in which services are exchanged free from government regulation, and (2) the money economy in which government money is being used as a medium of exchange. The major distinction between the barter economy versus the public economy is the visibility of the transactions to the government in the latter. Once a transaction becomes visible to the government, it becomes subject to government regulations so that those individuals participating in the public economy must be willing to give a share of their work to government (e.g., taxes). Individuals will shift to this public economy when it is easier to trade their work for someone else's in the public economy. One individual trades his labor (e.g., a carpenter) with those who are willing to trade for other items—groceries, housing, insurance, and the like.

The Incentive to Work

Government can assist production in a free enterprise economy by making work more attractive than non-work. If an individual can keep a significant part of the results of his labor he is more willing to work. However, if government acts through coercion (e.g., taxes) in taking away the fruits of his labor, the worker is less interested in working in the public economy. In addition, if non-work is more attractive either through welfare benefits or unemployment benefits, the individual will choose non-work or leisure.

Jude Wanniski has explained how this lesson applies to CETA-type government jobs programs:

> Government programs to "create jobs" usually fail because the designers of the programs ignore the incentives of the barter economy... Such offers are frequently spurned by those government has targeted, for they would not only have to give up their transfer (welfare, etc.) payments, but also their tax free work or leisure in the barter economy. The new governmental jobs will instead attract individuals who are already employed in the public economy, but at lower rates of pay than the new positions being devised by government.[3]

Besides the inefficiency inherent in government created jobs, the government acting as the agent for creating jobs violates the personal freedom of the individual in a free enterprise economy. These programs violate certain fundamental moral principles which view man as a free individual with the right of choice in the economic system. The government in effect robs the working man of the fruits of his labor through taxes in order to subsidize another individual, possibly at a higher rate of compensation, for doing non-productive work.

The government programs also can be faulted for disrupting the operation of the market economy. Perma-

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nent jobs are created when there is a climate of freedom—the investor is willing to put his money in an enterprise where he will receive a desirable rate of return, a businessman will open a plant or factory or business with the expectation that he receive a profit, and the worker will attempt to sell his labor to the highest bidder with the most desirable return for his work. This freedom of choice benefits all parties concerned in a free market economy. Government-created jobs programs deny the operation of this successful system.

Resources Wasted

When the government intervenes in the economy, government bureaucrats take money from the taxpayers and direct money to projects without any concern for the best use of resources. Because of their mistrust and misunderstanding of the market principles, these resources are allocated to a variety of uses—additional governmental jobs, controversial experimental programs, public works. The government through high taxation, expansion of the money supply, and intervention in the credit markets to finance these projects helps to drive out individuals who seek financing in the private sector.

No government action can substitute for the effective operation of the free market economy. When government seeks to employ people, it must take these resources from the resources of the private sector which is the productive sector and the operation of the government jobs programs becomes merely another way to redistribute income. Whether the central government is paying out high welfare payments or salaries for non-productive jobs, the result is to reward "non-work" at the expense of the productive sector. These so-called government jobs only place a greater burden on the taxpayer, and the resulting government spending only delays the time for full recovery during an economic slowdown.

Training for What?

The same dismal results have come from government job training programs as from the jobs creation programs. A 1977 study by the Congressional Budget Office concluded that even intensive government training programs failed to raise the lifetime income potential of participants. The study found that the average manpower training enrollee, either a young person or a member of a minority group, achieved an annual post-training income differential of only $400. This differential resulted not so much from the training but as a result of the individual working more hours per week or in working more weeks per year.[4]

Many of these government training programs train workers for jobs

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which do not exist, and thus funds from the taxpayers are used to keep a person unemployable. The most effective training programs are those originating from companies who train employees with potential for jobs in which they are then placed. If workers are already trained or have a marketable skill, immediate work is provided for the unemployed. The opportunity for real jobs creation can only come when government creates a climate for private enterprise and does not attempt to compete with it for employment of workers.

Some critics see the jobs creation programs put in operation during an "emergency" as a step toward the destruction of the free enterprise system, with the government assuming the role of central planner and chief employer for the economic system. The distinguished journalist John Chamberlain has noted that ever since the beginning of social life men have swung between extremes of freedom and coercion, voluntary association and community compulsion, family "mutualism" and State-imposed order. While man can exist under either system, he notes that it is only when cooperation is a matter of free election and the voluntary approach predominates that man can live creatively.[5]

One needs only to look to Great Britain whose government leaders have been devoted followers of Keynes to discover the crisis in its economy—a low growth rate, a poor rate of productivity, a deteriorating physical plant, high inflation, high unemployment, and a high degree of social unrest. Despite warnings, the British continued to plunge into disaster. The consequence has been to make Britain the latest version of the "Sick Man of Europe".[6] Will the United States learn this lesson before it is too late?

The Need to Return to Free Market Principles

Critics of government intervention in the U.S. economy have stressed that the difference between a Keynesian approach and the classical free market approach goes beyond mere economic theory and reflects a significant difference in social policy. This factor is illustrated in the difference between a $14 billion reduction in federal taxes and a $14 billion expansion of public programs, the latter strongly supported by the Keynesians.

The reduction in taxes (and government interventionism) acts as an incentive to strengthen the private sector and enlarges the sphere of private control over spending. The expansion of public or government spending, favored by the Keynesians, limits the private sector and expands the public sector where allocation decisions are made by government officials, not the factors of

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demand and supply. The stakes are not only economic efficiency and decision-making control, but personal freedom as well.

Critics of the CETA program have often cited the many abuses in these programs as funds have been used to provide additional political jobs, pay salaries for old jobs previously funded by local taxes, pay for bartenders and lounge managers, support muscle-building programs for women, and funding activist anti-business groups. However, even without these many scandals, these programs would be defective because of the attempt by government to perform a function which economically and morally belongs to individuals operating in the private sector.

Bureaucratic Inefficiencies

The great economist Ludwig von Mises pointed out many years ago the difference between profit management and bureaucratic management in his notable work *Bureaucracy* (1944). The grave inefficiencies of bureaucracy were inherent and inescapable, von Mises reminded his readers, and these led to the failures of government-promoted and government-controlled programs in a nation's economy.[7]

A more recent study has added more ammunition to the critics of these job programs promoted by the central government. Two research scholars, Kim B. Clark and Lawrence H. Summers, noted that there was no evidence that billions of dollars spent on special jobs programs had any real results. These professors found there *is* evidence that as aggregate demand increases, and the general level of economic activity grows, *employment increases for all groups in the economy,* including young adults and even older workers. Rejecting the argument that special programs are needed to help minorities in the economy, they noted that in the case of black teenagers, who have an unemployment rate of 36 per cent, benefits occur since employment in that group rises by 6 per cent for every 1 per cent increase in economic activity.[8]

The 1980s should be a time to reduce the failing economic policies of the 1970s that have brought inflation, stagflation, and economic hardship—policies which have reduced the standard of living of the American people and seriously weakened the role of the United States in the international community.

Policies for Growth

The importance of incentives in the political and economic sphere must be recognized, replacing governmental interventionism. Economic policies to encourage savings and capital formation in order to maintain a healthy growing econ-

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omy must be pursued and the result will be productivity, stable demand and prices, and reduced inflation. Only through a growing economy based on the principles of the free market do all the citizens—especially the disadvantaged—gain by an increase in their standard of living.

Policy leaders in the U.S. government must shift the economic emphasis to the supply side of the market, realizing the negative impact of high tax rates on total output and the income transfer payments that have ultimately penalized the efforts of low-income families to help themselves.

When productive citizens are allowed to keep their income, the incentive is present for economic growth and increased productivity without government-sponsored work programs.

The incentive to save will provide the funds necessary for the tools, high technology, and modern machinery which will aid the increase of production per manhour.

A frugal central government, balancing the budget and restricting the growth of the money supply, will enhance economic growth, reduce inflation, and get people back to work in the private sector in permanent jobs which will help the economy to grow.

The time is now to roll back the Keynesian influence over public policy in the United States. The theory that government spending causes people to produce must be rejected. Government spending does not cause economic growth but it does cause economic disruption through inflation and interference in the market place.

Restoration of Incentives

Incentives must be restored for production, employment, investment, and new enterprises. A sound economic policy can make rapid progress toward the completely achievable goal of restoring growth to the economy and increased productivity and employment.

We can only preserve the moral freedom of the individual and economic prosperity by the market solution, not by a government imposed solution. In warning against the road to serfdom from oppressive government, the Nobel prize economist Friedrich A. Hayek noted that although history does not repeat itself, we can learn from the past in order to avoid a repeat of the same process. His admonition should be a clear message to those who love freedom and oppose government jobs programs: "The guiding principle that a policy of freedom for the individual is the only truly progressive policy remains as true today as it was in the nineteenth century".[9]

Real prosperity and strength for the economy will only come when

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such ill-fated schemes of government intervention as the CETA program are abandoned in favor of using the strengths of the free market unhampered by the heavy hand of government regulation. Heeding the prophetic words of George Santayana, free men will recall the failure of government to create jobs or restore employment and will seek the answer for a strong economy in the time tested principles of the free market.

—FOOTNOTES—

[1]James Gwartney and Richard Stroup, "The Creation of Economic Chaos: Inflation, Unemployment, and the Keynesian Revolution," *The Intercollegiate Review* (Fall/Winter, 1980), p. 3.

[2]Hans F. Sennholz, "Standards of Living Are Falling," *The Freeman* (February, 1981), p. 8.

[3]Jude Wanniski, *The Way The World Works* (New York: Simon and Schuster, 1978), p. 84.

[4]*Public Employment and Training Assistance: Alternative Federal Approaches* (Washington, D.C.: Congressional Budget Office, 1977).

[5]John Chamberlain, *The Roots of Capitalism* (Princeton, New Jersey: D. Van Nostrand Company, Inc., 1965), Revised Edition, p. viii.

[6]R. Emmett Tyrrell, Jr. (editor), *The Future That Doesn't Work: Social Democracy's Failures in Britain* (Garden City, New York: Doubleday and Company, Inc., 1977), Introduction, pp. 1–2.

[7]Ludwig von Mises, *Bureaucracy* (New Rochelle, New York: Arlington House, 1969 (Reprint of 1944 edition), pp. 122–123.

[8]Kim B. Clark and Lawrence H. Summers, *Demographic Differences in Cyclical Employment Variations*, Working Paper No. 514, Cambridge, Massachusetts: National Bureau of Economic Research, 1980; Also see "Debunking the Efficacy of Special Job Programs," *Business Week* (September 1, 1980), p. 8.

[9]Friedrich A. Hayek, *The Road to Serfdom* (Chicago: The University of Chicago Press, 1965), p. 240.

IDEAS ON LIBERTY

An Appropriate Policy

ONE further observation must still be made about this matter of saving and capital formation. The improvement of well-being brought about by capitalism made it possible for the common man to save and thus to become a capitalist himself in a modest way. A considerable part of the capital working in American business is the counterpart of the savings of the masses. Millions of wage earners own saving deposits, bonds, and insurance policies. All these claims are payable in dollars and their worth depends on the soundness of the nation's money. To preserve the dollar's purchasing power is also from this point of view of vital interest to the masses. In order to attain this end, it is not enough to print upon the banknotes the noble maxim, *In God we trust.* One must adopt an appropriate policy.

LUDWIG VON MISES, "Wages, Unemployment, and Inflation"

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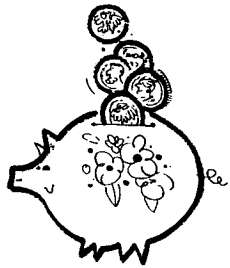
Beth A. Hoffman

Inflation Is...



Dear M_____:

Thank you for your letter, asking for information about inflation. The members of the staff here at The Foundation for Economic Education have been studying inflation for many years. We have published books and many articles about the subject. I will share with you some of the things I have learned.

Government causes inflation by printing lots of paper dollars. Many people believe that inflation is high prices. But actually inflation is the increase in the quantity of money. How does this increase lead to high prices?

Well, let's pretend that you're not happy with the allowance that your parents give you. You don't have enough money to buy all the bubblegum, hamburgers, comics or toys that you want. Let's also suppose that you had a Magic Machine that could print all the dollars you wanted. (This is called "counterfeiting" and people go to jail for doing this. But just pretend that you could print as much money as you'd like.) Since you would have all the dollars from this Magic Machine you could spend as much as you like and would not have to worry about asking your family for a bigger allowance. When you're on a limited allowance you have to watch your pennies pretty carefully. But if you had a Magic Machine, you could be less careful with your dollars. You wouldn't have to choose between a new book and a pad of drawing paper. You could buy *both*—and even more! This would be fine and dandy for a time.

But suppose your friends all had these Magic Machines—or that you had so many dollars that you gave a lot of them to your friends. Well, if enough of you had loads of money to spend at the local candy store pretty soon something interesting would happen. The candy store owner has only a certain amount of bubblegum to sell. But suddenly, with you and other "rich" kids, there's a *big* demand for bubblegum! If he had only 5 packages of gum for sale and there

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An inquiry about inflation from a ten-year-old drew a response others may find helpful. Mrs. Hoffman is Production Editor of *The Freeman*.

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were ten of you who wanted to buy it, any one of you might be willing to pay $10.00 or more for one package of gum. (Remember that back when you had only your allowance, you'd *never* pay that much for a little pack of gum!) Because of the bigger demand, the owner of the candy store might decide to ask a higher price for the gum—and you will pay it because each of your dollars has lost some of its value. You may seem "rich" but your money has lost a lot of its buying power because there are others who also have lots of money and are "rich."

In very simple terms, this is what our government has done. Through many decisions made by the officials in the government, there has been an increase in the number of dollars printed. There are just many more dollars—paper dollars that don't buy as much as the old dollars did. (You've probably heard adults say, "Gee, the dollar doesn't go as far as it used to.")

The people in this country give the government its "allowance" by paying taxes. But taxes are not popular. So, rather than asking for a bigger "allowance," that is, for higher taxes, the government tries something else. It prints money with a printing machine. And when the government does it, it's legal! Because it can legally print almost as many dollars as it wants, the government doesn't have to go to the people and say, "We need more money to pay soldiers and policemen and to buy all the things we want to give people." The officials can print more money to pay all their debts. And they can print more money to pay for lots of benefits for their friends. And if they can't print enough, they can ask for an "advance" on next year's "allowance." This way, people don't have to pay more taxes, the government can hand out goodies and everyone seems happy. But eventually everyone begins to realize that the dollars are not worth what they once were. And, just as with your Magic Money Machine, the government's money machine doesn't make everyone rich. Some people seem rich for a while. But when some of the people get some of the newly printed dollars, they bid prices up. Then many other people can't buy the things they want. And so on.

I'm enclosing some articles you might want to read, particularly one by Mr. Henry Hazlitt, "Inflation in One Page." In different language, he says the same thing I've told you. When you are a bit older, you may also want to read Mr. Hazlitt's book called *Economics in One Lesson.*

If you have any questions or would like some more information, please write to me. I will try my best to help.

Cordially,
Beth Hoffman

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Clarence B. Carson

Economy in Government, Jeffersonian Style

GOVERNMENTS are under the same necessity as the rest of us for economizing in their transactions. The means available to them for providing such goods and services as they may offer are scarce, and economy is the universal prescription for dealing effectively with scarcity. Indeed, a case can be made that governments have even more compelling reasons for observing the rules of economy than do men in their private capacities. But let that wait for a bit.

For the past fifty years the United States government has acted as if the rules of economy did not apply to it. It could spend more than it took as revenue year in and year out. It could provide an ever larger array of expensive programs with no determined means of financing them from current or future income. It could go ever more deeply into debt with no provision for reducing or retiring it. More, there were some who had the training of economists who claimed that government spending could and would produce prosperity. With that prospect in view, the Treasury served as the fountain of a cornucopia of grants, subsidies, welfare payments, low interest loans, guarantees, insurance programs, and so on. Unbalanced budgets, deficit spending, and mounting debt were standard practices for nearly three generations.

There are some signs of a dawning

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awareness of the necessity for economy in government. When President Reagan delivered his "Economic Message" to Congress in February of 1981, he called attention to the fact that the debt of the federal government was now very close to $1 trillion. Indeed, Congress had, only days before that, increased the debt ceiling from approximately $935 to $985 billion. Mr. Reagan pointed out, too, that there is a connection between this mounting debt and such unwanted developments as high interest rates and the decline in the value of the currency. The government's longtime neglect of the rules of economy has led to consequences which affect adversely the economic well-being of all of us. He promised to press for numerous economies in government with the aim of eventually achieving a balanced budget.

Principles of Economy Vigorously Applied

This message, coupled with a continuing debate over economies in government, prompted me to review American history in quest for guidelines and principles of economy in government. This quest led me to the Jeffersonians, who were surely the most determined economizers in American history. Moreover, they not only acted on the basis of principles but also applied them vigorously and generally succeeded in accomplishing what they set out to do.

Of course, the situation of the Jeffersonians was different in many respects from our own. They were writing on a nearly clean slate in charting the course of government, while ours is cluttered with almost two centuries of practice and malpractice. The Jeffersonians usually wrote out their messages by hand and made their own arithmetic calculations. Today, Presidents have every sort of personal assistance and numerous electronic devices to aid them in performing their duties. Circumstances change, but principles remain as valid as they ever were. And, it is their principles of economy in government on which we will focus our attention.

The Jeffersonians made the first major surge to economy in government in the history of the United States—and the most sustained one. To say this is not to accuse either the Washington or Adams administrations, which preceded them, with mismanagement or with carelessness toward economy. It is rather to recognize that the earlier Presidents faced the task of establishing the new government and that much of their business was more immediately pressing than was economy. Moreover, Alexander Hamilton, who occupied so central a role in the early years, tended to subordinate economy in government to his plan for a large role for the central govern-

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ment in the economy. The Jeffersonians, then, inherited a task to their liking, that of setting the government on a rigorous economical course.

Basics Observed by Jefferson, Madison, and Monroe

The Jeffersonians controlled and provided the leadership of the government from 1801 to 1825.[1] They comprised the administrations of Thomas Jefferson, James Madison, and James Monroe. They are called "Jeffersonians" because Jefferson founded their party—the first Republican party—and enunciated the basic principles to which they all adhered. In addition to being Republicans, all three were Virginians. They were the last of the men, too, who had a hand in founding the American republic who served in the presidency. The Constitution was still for them a plan that had to be made to work, and they were strict constructionists. They were also partially linked through the financial ideas and leadership of Albert Gallatin, who served under Jefferson for two terms as Secretary of the Treasury, and under Madison for one term. Gallatin was not only a dedicated economizer but also one of the most articulate and respected exponents of economic ideas in the early years of the Republic.

It is strange that Thomas Jefferson should have emerged as a political leader—a pre-eminent one at that. He had few of the traits and inclinations that are usually associated with leadership. He disliked formal occasions, preferring "republican simplicity" to pomp and show, avoided occasions for delivering speeches—sent "annual messages" to Congress rather than making State of the Union addresses—, and generally preferred the company of one person to that of a group. The key to Jefferson's character is that he was at home in the realm of ideas, relished exchanging them with others, and even liked the intellectual clash over ideas. But he avoided, whenever possible, the contest of wills for dominance. He did not have regular cabinet meetings, preferred meeting cabinet members on a one on one basis, and on crucial questions usually asked for the opinions of involved cabinet members in writing. In most periods of history, Jefferson probably would not have been a leader of men. But this was an age of ideas, and Jefferson was a careful thinker and a master of the written word. As a man of ideas, he attracted others of the same character to his side.

In any case, Jefferson was a man of principle, and it is his principles of economy in government, and those of his followers, that concern us here. The following principles stand out clearly in their public statements and practices while in power.

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1. Frugal Management of Public Affairs. The basics of this principle were set forth in Jefferson's First Inaugural Address. He said, "Still one thing more, fellow-citizens—a wise and frugal Government, which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned."[2]

It might be supposed from the above and from his actions as President that Jefferson was personally miserly, a penny-pinching skinflint, no less, so devoted to economy that he would deny even himself the amenities. Actually, he was generous to a fault in his private life where his own possessions were concerned. (So, too, were many of his contemporaries.) Indeed, he was so generous, and improvident, that shortly after his death, the beautiful mansion, Monticello, along with its furnishings, was sold to pay his debts. Why his affairs were in such shape at his death is suggested by this account of his generosity in his later years: "Relatives, invited guests, and strangers filled Monticello (frequently beds were made for a score and more, sometimes for fifty); they stayed for days, weeks, even months, drank his choice French wines, kept their horses in his stables. For solitude he had to retire to a second home, constructed as a refuge."[3]

But Jefferson distinguished between public and private affairs. What disposition he made of his own possessions was his own business, so long as he did no injury to others. Public affairs were another matter entirely. Governments depend upon taxation for their revenue. Sanctions may be used to collect the taxes, and taxes tend to "take from the mouth of labor the bread it has earned." Taxation takes from the productive, as we would say, some portion of what they have earned to defray the expenses of government. These hard truths were the basic premise of Jefferson's insistence on economy. Madison and Monroe operated on the same premise, as did the Jacksonians who eventually succeeded them in office.

2. Keep Taxes to a Minimum. In his "First Annual Message" to Congress Jefferson called for a reduction in taxes. In the same message he recommended the reduction of expenditures, but reduction in taxes was given priority both by its placement in the message and by the specific character of taxes listed. Gallatin had signalled this approach in a letter to Jefferson just weeks before the message was sent to Congress. He said that "if this Administration shall not reduce taxes, they never will be permanently reduced. To strike at the root of the evil and avert the danger of increasing taxes,

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encroaching government . . ., nothing can be more effectual than a repeal of *all* internal taxes, but let them all go, and not one on which sister taxes may be hereafter grafted."[4] In more measured terms, Jefferson declared that "there is reasonable ground of confidence that we may now safely dispense with all the internal taxes, comprehending excise, stamps, auctions, licenses, carriages, and refined sugars . . ."[5] By the time Jefferson gave his Second Inaugural Address he could proclaim that the internal taxes which had covered "our land with officers" and opened "our doors to their intrusions," thus beginning a "process of . . . vexation which once entered is scarcely to be restrained from reaching successively every article of property and produce" were no more. "What farmer, what mechanic, what laborer," he asked, "ever sees a taxgatherer of the United States?"[6]

A Means to Curb Government

It should be clear from the above that Jefferson and Gallatin, in their desire to remove taxes, were concerned with more than the burden which these might be to the taxpayer. They were concerned with the violations of privacy and intrusion into the management of the affairs of citizens involved in some kinds of taxation. They were concerned to inhibit the expansive tendency of government itself, not only the expansion of taxes but also the expansion of government activities. They believed what history tends to prove, that governments will devise means to spend whatever they can take in, and use any established tax on one thing as a basis for taxing whatever may be analogous to it.

In the final analysis, the Jeffersonian thrust to remove taxes was a part of their effort to limit government and free people for the management of their own affairs. This was a goal apparently shared by many members of Congress, not only demonstrated by their willingness to remove taxes but also by their opposition to government regulation of private business. When a committee of the Congress considered legislation to regulate steamboats, it recommended against enactment, declaring that "in a free State, where every one is entitled to cultivate his own vineyard according to the dictates of his own judgment, to require that it should be done in a prescribed form, and with a specific amount of labor, or power, would appear to be an interference with individual discretion, and an encroachment on the rights of the citizen . . ."[7]

3. Hold Expenditures Down. Jefferson coupled his move to reduce taxes with an effort to reduce the expenses of the government. He pointed out in his "First Annual

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Message" to Congress that there was no need for a vast Federal establishment since "the States themselves have principal care of our persons, our property, and our reputation, constituting the great field of human concerns." That being the case, "we may well doubt whether our organization is not too complicated, too expensive; whether offices and officers have not multiplied unnecessarily and sometimes injuriously to the service they were meant to promote." With this in mind he had already begun to reduce the number of personnel, he said. "The expenses of diplomatic agency have been considerably diminished. The inspectors of internal revenue who were found to obstruct the accountability of the institution have been discontinued. Several agencies created by Executive authority . . . have been suppressed . . ." In this connection, he recommended that Congress should act to regulate executive authority, so as to restrain Presidents from creating new offices on their own initiative. But since Congress had authorized most of the offices, it alone could reduce them, and Jefferson promised his full cooperation if they wished to review them with that object in view. Clearly, he hoped that it would, for he expressed his fear that otherwise the expense of government would mount as high as the citizens could stand, and "after leaving to labor the smallest portion of earnings on which it can subsist, Government shall consume the whole residue of what it was instituted to guard."[8]

To the end that this should not happen, Jefferson proposed that "it would be prudent" for Congress "to multiply barriers" against spending by doing such things as "disallowing all applications of money varying from the appropriation in object or transcending it in amount; by reducing the undefined field of contingencies and thereby circumscribing discretionary powers over money, and by bringing back to a single department all accountabilities for money. . . ."[9]

Expenses Controlled

Much of this might have been so much eye wash, and in our day we might cynically expect that it would turn out that way, but there is much evidence that the Jeffersonians took seriously their expressed intentions to keep expenses down. In the Treasury, for example, the number of employees was not only reduced but also held down over the years. In 1801, when Gallatin took over, there were 1,285 employees. In 1826, the total stood at only 1,075. Moreover, one historian has noted that during the Jeffersonian years "New activities and new objects of expenditure were conspicuously absent."[10]

How expenses were held down is well illustrated from the attitudes,

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activities, and reports of Albert Gallatin while he was Secretary of the Treasury. Shortly after Madison took office, Gallatin wrote to Jefferson, "I cannot, my dear sir, consent to act the part of a mere financier, to become a contriver of taxes, a dealer of loans, a seeker of resources for the purpose of supporting useless baubles, of increasing the number of idle and dissipated members of the community, of fattening contractors, pursers, and agents. . . ."[11]

Not that Jefferson would have suspected him of such a role, for Gallatin had applied himself diligently to economizing for him. He kept a careful watch over the requests for appropriations of all departments. The Navy especially drew his attention, because of what he suspected as lavish requests. In a letter to Jefferson in 1803, Gallatin criticized the Navy's request for $40,000 for contingencies, and reduced it to $10,000. Later that same year, he wrote: "I allow three hundred thousand dollars to the Secretary of the Navy for the equipment of the four additional frigates: he wants four hundred thousand dollars; but that is too much. . . ."[12]

4. The Constitution a Barrier to Public Expenditures. Although it has not been much noticed of late, the United States Constitution is an invaluable ally of those who would economize by keeping the expenses of government down. Nowadays, Federal funds are appropriated for all sorts of programs which are not authorized by any enumerated power in the Constitution. The Jeffersonians did not often have to appeal to this restraint, at least the Presidents didn't, for Congress was little disposed to adventures in spending either, during this era. There were a few occasions, however, when they had opportunities to show how the Constitution is a barrier.

Most of them had to do with appropriations for internal improvements, specifically, improved roads. It is not clear that the Jeffersonians opposed spending Federal money for internal improvements. Earlier in his career, Jefferson had questioned the advisability of it, but as President he was apparently brought around to Gallatin's view that the government should promote them. Jefferson came to the constitutional question in this way. By 1806, his programs to achieve economy had borne such fruit that he foresaw a continuing and mounting surplus in the Treasury. Rather than remove other taxes (mainly tariffs), he suggested to Congress that the surplus might be well spent for the "great purposes of the public education, roads, rivers, canals, and . . . other objects of public improvement. . . ." However, before these things could be done, he said, "I suppose an amendment to the Constitution, by

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consent of the States, necessary, because the objects now recommended are not among those enumerated in the Constitution, and to which it permits the public moneys to be applied."[13] No such amendment was forthcoming, and nothing further was done during Jefferson's term in office.

Madison Uses Veto Power

James Madison, however, faced the question of appropriations for internal improvements head on. Just before he left office at the end of his second term he vetoed a bill which would have pledged funds for a general program of road, canal, and navigation improvements. His veto has special significance, for he had played a leading role in drawing up the Constitution and the first ten amendments to it. If anyone understood the intent of the Constitution he should have. Regarding the bill, he said, "I am constrained by the insuperable difficulty I feel in reconciling the bill with the Constitution of the United States to return it with that objection to the House of Representatives, in which it originated."

He explained his reason for the veto this way: "The legislative powers vested in Congress are specified and enumerated in the eighth section of the first article of the Constitution, and it does not appear that the power proposed to be exercised by the bill is among the enumerated powers, or that it falls by any just interpretation within the power to make laws necessary and proper for carrying into execution those or other powers vested by the Constitution in the Government of the United States."[14]

Monroe Sustains the Principle

James Monroe drove the point home in his veto of a bill which would have authorized the collection of tolls on the Cumberland Road to keep the road in repair. Since some money from the sale of lands in Ohio had much earlier been applied to the building of the road, it was at least plausible that Congress might now provide for its preservation and repair. Plausible or not, Monroe argued that the exercise of such a power was unconstitutional. He reached that position by inviting Congress to look at the matter whole. "A power to establish turnpikes with gates and tolls," he wrote, "and to enforce the collection of tolls by penalties, implies a power to adopt and execute a complete system of internal improvement." But he denied that Congress had any such far-reaching authority. "If the power exist, it must be either because it has been specifically granted to the United States or that it is incidental to some power which has been specifically granted. If we examine the specific grants of power we do not find it among them, nor is it incidental to any power

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which has been specifically granted."[15]

Monroe was not satisfied, however, with simply vetoing the measure. Later, he sent to Congress a lengthy paper in which he explored the question from many angles and buttressed with extensive argumentation his conclusions about the constitutional status of the matter. The crux of his argument is found in these words: "If then, the right to raise and appropriate the public money is not restricted to the expenditures under the other specific grants according to a strict construction of their powers respectively, is there no limitation to it? Have Congress a right to raise and appropriate money to any and to every purpose according to their will and pleasure? They certainly have not. The Government of the United States is a limited Government, instituted for great national purposes, and for those only. . . ."[16]

That is the keystone of the Jeffersonian case for economy in government: "The Government of the United States is a limited Government." Above all, it is limited, if it is limited, in its power to tax and to appropriate monies, for it is with these that it may extend its power and sway. The points at which they chose to draw the line may not impress us favorably today, but there should be no doubt that if the line is to be drawn, it must be drawn somewhere. They held that the Constitution fixed the line.

There were two more principles, however, which rounded out their guidelines for economy in government.

5. Balance the Budget. The Jeffersonians recognized that there would be occasions when revenue income would not meet extraordinary expenses. Jefferson approved going into debt to make the Louisiana Purchase. Madison accepted the necessity for borrowing for military expenses during the War of 1812. The Monroe administration had to borrow in the wake of the 1819 depression. A balanced budget, in the sense that the term is used today, was no fetish with them. Governments sometimes have to borrow, just as individuals do, and it is neither shameful nor a thing to be avoided at all costs.

Still, they took care that ordinarily income would equal or exceed expenses, and when it did, they considered that they had acquitted their offices well. Usually Jefferson was able to report a surplus in the Treasury at the end of an accounting period. Because of war, Madison was not able to manage so well. Monroe, on the other hand, was able to make mostly successful reports.

Here is a fairly typical report of the financial situation of the government, made by President Monroe

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to Congress in late 1817: "In calling your attention to the internal concerns of our country the view which they exhibit is peculiarly gratifying. The payments which have been made into the Treasury show the very productive state of the public revenue. After satisfying the appropriations made by law for the support of the civil Government and of the military and naval establishment . . ., paying the interest of the public debt, and extinguishing more than eighteen millions of the principal, within the present year, it is estimated that a balance of more than $6,000,000 will remain in the Treasury on the 1st day of January applicable to the current serving of the ensuing year."[17] The tone of his report suggests the pride he took in good stewardship.

6. Retire the Debt. In the early years of the Republic, in the heat of the debates over the funding of the national debt and assumption of certain of the state debts, there were apparently those who advanced the notion that "public debts are public blessings." Indeed, Alexander Hamilton, who was in the forefront of the fight for funding and assumption, believed that the view had been imputed to him. He denied holding any such belief. However, he did maintain that "the funding of the existing debt of the United States would render it a national blessing."[18] He based this claim on the fact that the value of United States securities would and did rise when it became clear that the government was pledged to pay them off upon maturity. From that, he concluded that the actual capital in the country was increased by the debt.

Albert Gallatin went to considerable pains to refute the notion that the debt in any way augmented the capital of the country.[19] In the first place, he pointed out, the war, which had been the occasion for the debt, had consumed an immense amount of potential capital. In the second place, he argued, funding did not increase the total capital of the country. True, those who held or purchased the bonds might experience an increase of capital when the bonds appreciated in value. But that was counterbalanced by the loss of potential capital by taxpayers who would have to pay the debt. More, it would be overbalanced by what would have to be raised by the payment of interest. Far from being enriched by debt, he declared, "every nation is enfeebled by a public debt. Spain, once the first power of Europe . . ., Holland, notwithstanding her immense commerce, still feel the effects of the debts they began to contract two centuries ago, and their present political weakness stands as a monument of the unavoidable consequences of that fatal system. Yet what are those instances when com-

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pared with that of France, where the public debt . . . has at last overwhelmed government itself!"[20]

Gallatin was arguing, of course, that government indebtedness should be retired as expeditiously as possible, and avoided, along with war which was the most common occasion for it, whenever practicable. Thus, the Jeffersonians devoted themselves with a right good will to making regular payments on the debt and usually looked forward to its retirement at the earliest possible date. Although the debt was not finally extinguished until the time when Jackson was President, the Jeffersonians pointed the direction and prepared the way.

These, then, were the rules, principles, and guidelines of the Jeffersonians for economy in government: Frugal Management of Public Affairs, Reduction of Taxes, Reduction of Expenditures, Observance of the Constitutional Barrier to Expenses, Balance the Budget, and Retire the Debt. Undoubtedly, it would require great imagination and tenacity to apply them in our time, but they do provide the guidelines for economy in government.

—FOOTNOTES—

[1]Some historians include the administration of John Quincy Adams with that of the Jeffersonians. But his thrust was in a different direction, and he belongs with the Whigs, though the party had not been organized when he was elected President.

[2]James D. Richardson, ed., *A Compilation of the Messages and Papers of the Presidents,* vol. I (New York: Bureau of National Literature, 1897), p. 311.

[3]*Encyclopedia Britannica,* vol. XII (1955), p. 992.

[4]E. James Ferguson, ed., *Selected Writings of Albert Gallatin* (Indianapolis: Bobbs-Merrill, 1967), p. 207.

[5]Richardson, *op. cit.,* p. 316.

[6]*Ibid.,* p. 367.

[7]Quoted in Leonard D. White, *The Jeffersonians: A Study in Administrative History,* 1801–1829 (New York: Macmillan, 1951), p. 24.

[8]Richardson, *op. cit.,* pp. 316–17.

[9]*Ibid.,* p. 317.

[10]White, *op. cit.,* p. 25.

[11]Ferguson, *op. cit.,* pp. 325–26.

[12]White, *op. cit.,* pp. 142–43.

[13]Richardson, *op. cit.,* pp. 397–98.

[14]*Ibid.,* vol. II, p. 569.

[15]*Ibid.,* pp. 711–12.

[16]*Ibid.,* p. 736.

[17]*Ibid.,* p. 584.

[18]Richard B. Morris, ed., *Alexander Hamilton and the Founding of the Nation* (New York: Dial, 1957), p. 319.

[19]Ferguson, *op. cit.,* pp. 34–35.

[20]*Ibid.,* p. 40.

IDEAS ON LIBERTY

Clarence Manion

WE couldn't get along without government, because we are a benighted race. But at the same time, unless you keep government as you keep fire, under control, checked and balanced, separated, divided, tied down, government will destroy you.

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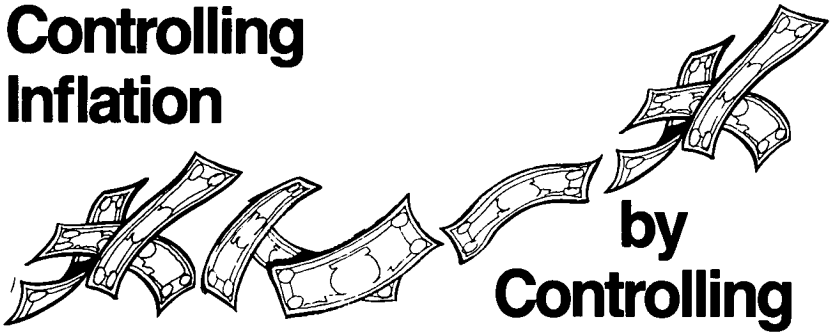
Dwight R. Lee

Controlling Inflation by Controlling Government



INFLATION has become such a chronic problem that many people now believe no one knows what causes it or how to eliminate it. In fact, the cause of inflation has been known for centuries, and it is very simple to eliminate. Inflation is a persistent increase in the prices of the products we buy and is always the result of the money supply increasing more rapidly than the output of these products. With a rapid increase in the money supply, inflation is inevitable. Without a rapid increase in the money supply, inflation is impossible. The federal government can eliminate inflation simply by bringing monetary growth under control.

But if this is true, why has not the government eliminated inflation long ago? Politicians have consistently told us that inflation is our major economic problem and have unveiled a series of plans for solving this problem. These plans all have one thing in common. They have not worked. Inflation has gotten worse, not better. We are left with the suspicion that the government has not been serious in its fight against inflation.

Additional support for this suspicion comes from the fact that creating more money, and therefore causing inflation, is a convenient way for the government to obtain more of the wealth that you and I produce. The way this wealth transfer occurs is in all important respects identical to the way an individual in a position to personally increase the money supply could increase his wealth at the expense of others.

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An Easy Way to Make Money

Consider the situation in which you have the legal right to print money and put it into circulation by spending it. Every evening you can start up your printing press and run off stacks of 20s, 50s, 100s, and 1,000s for the next day's purchases. The desire to maintain productive employment will vanish as your job provides only a pittance of what you can, in a few moments, make at home. Also, you will find that the demanding task of spending your money is a full-time job. Overnight you will have become enormously wealthy. But notice that the total wealth produced in the economy is not any larger than it was before. In fact it is slightly less since, having quit your job, you are producing less than before. So your increased wealth means a reduction in the wealth of others. The additional goods and services you are buying are not available for others to buy.

But even though you are making others worse off by creating money and spending it, you need not worry about being blamed for this. To the contrary, you will surely be sought after and held in high esteem as one who is contributing to the wealth of the community. Your large expenditures will be a very visible source of income for those selling you yachts, resort homes, jet planes, and lavish vacations. Those who are on the receiving end of your purchases will be encouraging you to increase, not reduce, the amount of money you print and spend. And with these people now having additional money, they will be able to spend more, thus providing more income for others. Because of you, everyone will have more money.

But it is because of this additional money that others are being made worse off. With the additional money being spent, but with no more products to spend it on, prices will increase. Even with more money the inflation will reduce the amount others can buy. Since you are buying more, others have to be buying less. But even though you are causing the inflation you can be confident that your victims will place the blame elsewhere. People will blame higher prices on those who are selling the higher priced products. It is ironic that it is those who are helping to hold down increasing prices by continuing to make products available who are most likely to be blamed for inflation.

Adding to the irony is that many of those you are impoverishing with inflation will urge you to increase your purchases; particularly your purchases from them. Your ability to increase the money in circulation will be seen as the way to compensate for higher prices. And you will probably be sympathetic with this "solution," having noticed how much less a couple of billion dollars buys

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now in comparison with how much it would buy when you first started printing money. What could be more appropriate than increasing the amount of money you print each evening?

Can the Temptation be Resisted?

How many of us, finding ourself with the ability to legally increase the money supply, would be able to restrain our desire for more? The opportunity to make ourself and our family wealthy, while being honored as a great benefactor of the community, would be a difficult one for most of us to resist. And if you or I could not resist such a temptation, can we expect more restraint from those in government? The answer is surely no. The only difference between you and me as individuals, and government, is that the federal government really is in a position to acquire wealth by expanding the money supply. It is clear that this is an opportunity the government has not been able to resist. Those who benefit from a growing government sector have pushed consistently and effectively for public policies that generate inflation and reduce our wealth. The problem is not that the government does not know how to eliminate inflation. The problem is that the government has not wanted to eliminate inflation.

We are currently witnessing an attempt to control the inflationary policies that have become the hallmark of Washington over the last several decades. This heroic effort deserves and needs our unflagging support. It is an effort which will be stoutly resisted by one politically influential interest group after another, each hoping to benefit from more inflationary government spending. They will argue that inflation requires that the federal government increase their price support program, increase their agency's budget, increase aid to their city, increase welfare payments, etc. Each group will argue that the government spending they favor will provide benefits for all. In fact each expansion in government spending will add to inflationary pressure, transfer wealth to a few, and reduce the economy's capacity to generate more wealth for us all.

But the natural tendency of government is to give in to the special interest groups. In fact the special interests are hard to distinguish from government interest. Those in government have found that the safest way to expand and perpetuate their power, control, and wealth is to provide concentrated benefits to politically organized groups while spreading most of the cost over us all with inflation. The only way to stop this destructive process is to restrain government.

The hope has been to vote for politicians who are sympathetic to the

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need for controlling government. In other words, vote for a government that will restrain itself. But as important as it is to elect responsible representatives at all levels of government, we cannot depend on this alone to do the job. Our elected representatives answer to the voters only periodically, but they are under constant pressure from entrenched special interests pushing for more government spending. When appealing for votes almost all politicians argue for limited government, but how many remain true to their campaign promises once the election is over? And we have almost no control over those in the bureaucracy, and the special interest groups with which the bureaucrats indentify.

Restraining Government

The time has long since arrived for us to re-establish effective constitutional limits on the scope of government activity. Our founding fathers knew that government could not be trusted to limit itself, and our Constitution is testimony to their profound insight. Unfortunately, the limits the Constitution imposed on government for over 100 years have, in recent decades, been severely eroded by judicial interpretations guided by the false notion that wide-ranging governmental discretion is a force for social good. Few are naive enough to believe that an individual, given the ability to confiscate the wealth of others, would be blind to personal advantage and trustworthy to use this ability to promote only the public interest. Yet the "sophisticated" view of many of our intellectual elite is that the collection of individuals who comprise government can be trusted with enormous, and unrestrained, power to promote the public interest.

Despite the wishful thinking that often passes as scholarship, there is a desperate need for the enforcement of clear constitutional limits on the federal government's ability to create and spend money. Without such limits we can be sure that an undisciplined federal government will continue inflating the currency and expanding its wealth at the further expense of the productive sector of the economy. We may want to debate the form the restraint should take; a return to the gold standard, a balanced budget amendment, a limit on government spending, or some combination of these and other restraints. But only the most naive would argue that we can continue to trust the government to restrain itself.

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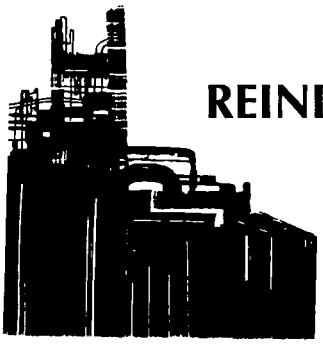
William R. Hawkins



REINDUSTRIALIZATION: The Capital Question

REINDUSTRIALIZATION. The term is imposing. It conjures up the image of a devastated economy and of a rebuilding effort of massive proportions. Indeed, the effort has been likened to that of the Marshall Plan which helped rebuild Europe after World War II. It is also a term which is viewed with suspicion in some circles because of the ease with which politicians learned to use the term in an election year. Yet, the sudden popularity of the reindustrialization concept should be welcomed, for it indicates a new consensus as to the seriousness of the problems confronting the American economy—a consensus that cuts across ideological and party lines.

The obvious catalyst for this movement has been the wave of plant closings in the steel and auto industries which have cost tens of thousands of workers their jobs. But these two industries are only the most visible examples of a general decline in the strength of the American economy. The foreign penetration of the American market and the decline in America's share of world trade are not due to any special attributes enjoyed by our European and Japanese competitors but to our own poor performance and mistaken policies.

The key element in any modern economy is capital investment. It is by this investment that workers are provided with more and better tools with which to work. This is the key to productivity. Productivity measures the amount of output produced by each worker for some time period. It was the great accomplishment of industrialization, and is the goal of reindustrialization, to boost this output.

Over the last two decades, the U.S. has lagged behind its foreign rivals in this effort. The myth that cheap

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foreign labor is the cause of our competitive lag is just that, a myth, at least as far as our European and Japanese rivals are concerned. Wage rates in West Germany and Japan are on a par with U.S. rates. It is not that each worker overseas is paid less per hour, but that each worker has been increasing what he produces each hour that has eroded the American position. Our competitors have been improving their productivity at a faster rate than we have because they have been consistently outspending us on capital investment.

U.S. Lags Behind

In the period 1960–1978, the U.S. spent 13.41 per cent of its Gross National Product (GNP) on new tools. This was half the percentage spent by Japan and significantly lower than the percentages spent by West Germany, Canada and France. Even England, long considered the "sick man" of Europe, invested more of its resources on tools than did the U.S. Table 1 shows the parallel between investment and productivity.

Beneath these averages lies a most ominous trend. American productivity gains are slowing. In the period 1968–73 annual gains were only 1.9 per cent. These gains dropped to only 0.7 per cent per year between 1974–79. For six quarters starting with the fourth quarter of 1978, productivity actually declined at a −1.8 per cent rate.

There are many factors that have contributed to this recent poor record. The most central is the low rate of capital formation. An economy must generate capital before it can invest it. Personal savings, depreciation, and that portion of business profits retained for internal use are what combine to form the pool of capital from which investment must draw.

Table 1: 1960–1978 National Averages

	Investment (% GNP)	Productivity Gain (increase in output per hour)
Japan	26.44	8.8
West Germany	18.43	5.4
Canada	17.45	4.5
France	16.85	5.7
England	14.69	3.3
United States	13.41	2.6

Source: American Iron and Steel Institute

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All of these sources of funds have diminished in recent years relative to the needs of the economy.

Savings Discouraged

Throughout the 1970s, personal savings in the United States, as a percentage of disposable (after tax) income has been less than in the industrial states of Europe and Japan. Over this period only about 6 per cent of personal disposable income in the U.S. was saved as opposed to 20 per cent in Japan and 14 per cent in West Germany. The acceleration of inflation in 1979–80 further weakened savings dropping the rate to a mere 3.4 per cent. Inflation undermines both the ability and the incentive to save. As inflation increased faster than the average person's income, many people cut back on savings in order to maintain their level of spending on consumer goods. Also, as inflation rages, the value of any idle funds, such as bank accounts, insurance and pension programs decline in real value. As the prices of things go up, the value of money goes down so it becomes smart to begin moving out of money and into goods. But what is smart for individuals in such a situation is harmful to the over-all economy. Money that flows into gold or works of art as a hedge against inflation is money that is not available for productive investments.

Tax policy has also hurt savings in a variety of ways. Inflation pushes people into higher tax brackets because of our progressive tax system. As the percentage of income going to taxes increases, the percentage left for disposable income diminishes. Taxes on the income from savings and investment are higher than on normal income, and the U.S. continues to be the only major industrial country to tax capital gains. The recent reduction in the capital gains tax rate had a profound stimulative effect on mobilizing money in the equity market and there is every reason to believe that further reductions or the outright abolition of the tax would have additional beneficial effects.

Business Depreciation Allowances Inadequate

The other major sources of capital, business profits and depreciation have also become increasingly inadequate. As recently as 1965 business firms were able to provide 90 per cent of the funds they needed from their own internal sources. But by 1979 this internally generated capital provided only 52 per cent of their requirements. This has placed increased pressure on the external capital pool generated by personal savings at the very time that saving has declined.

Depreciation provides the largest part of these internal funds. The shorter the number of years re-

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quired to recover the capital invested in plant and equipment, the easier it is to finance new and improved replacement equipment. Unfortunately, it takes twice as long, under U.S. tax laws, to write off an investment as it does in Japan and two to three years longer than in France or West Germany. This disadvantage is further magnified by the effects of inflation. Clearly, funds generated based on past costs are not going to be adequate to pay current or future costs.

There is widespread interest in liberalizing depreciation. Plans for basing depreciation on replacement costs rather than original cost, and adopting a 10-5-3 schedule for the number of years plant, equipment and vehicles, respectively, can be written off have attracted the most support from business. In the past, when depreciation was liberalized, the result has been as expected: the amount of capital investment increased.

Declining Profits

The other source of internal funds is earnings retained from profits.

Business profits as a share of GNP has declined from 13.3 per cent in the 1950s to 9.0 per cent in the 1970s. American business thus threatens to move into a vicious downward spiral. Lower profits generate less capital which slows productivity which loses markets to competitors which means a further lowering of profits.

Currently, the Federal corporate profits tax takes 46 per cent of what profits are earned. Money taken by this tax is, of course, not available for investment. William E. Simon, when he was Secretary of the Treasury, proposed reductions in the corporate profits tax and advocated eventual elimination of the tax as the easiest way to boost capital formation. While abolition of the tax is highly unlikely on political grounds, it is not beyond reason to hope that the tax can be reformed so that all or part of the profits that a firm would plough back into modernization or expansion of its operations could be made exempt from taxation.

Impact of Inflation

As if an inadequate capital pool were not enough of a problem, other government policies have had the effect of reducing the portion of that capital pool which is actually available for productive use. The Federal budget was in deficit every year of the 1970s. This deficit has to be financed by borrowing from the capital pool. Robert Dunn of George Washington University has appropriately called this "dis-saving." Since the principal cause of increased Federal spending over the last decade has been income transfer programs, deficit financing has

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become a direct conversion of savings into spending. During the 1970s some $302.6 billion was so diverted from private domestic investors, according to the Federal Reserve Bank of St. Louis.

It might surprise many Americans to realize that our foreign competitors do not reside in countries that run deficits as large or as persistently as we do. Table 2 shows the relationship between government spending, deficits and economic growth.

Surplus budgets have the opposite effect of deficit budgets. Instead of absorbing capital, surplus budgets pump money into the pool of capital. By paying off past debts, funds are released from a non-productive use and made available for productive uses.

Increasing the pool of capital is the fundamental prerequisite for the reindustrialization effort. However, capital, once mobilized, must be free to flow to the uses which are most productive. This is not always allowed to happen.

Misallocation of Resources

Governments at both the national and local levels have mandated a wide range of projects aimed at improving the environment and the safety of the workplace. These may be worthy goals, but during the 1970s inadequate attention was paid to calculating the full cost of such projects. Business had to divert billions of dollars of capital away from plans for modernization and expansion in order to finance pollution and safety equipment. Whatever the merits of these programs, they are not productive in the normal business sense of the term. They do not improve the competitiveness of American industry relative to its rivals.

If the government is going to

Table 2: 1965–74 National Averages

	Government Spending (% GNP)*	Budget (+ surplus − deficit as % GNP)	Growth Rate
Japan	10.4	+1.39	8.7
France	14.0	+0.34	5.8
Canada	16.2	+0.78	5.2
West Germany	20.4	−0.30	4.1
United States	23.2	−0.71	3.3
England	20.7	−1.19	2.5

*Source: Hudson Research Europe Ltd. from OECD data. *1961–71 average.*

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mandate that scarce capital be invested in non-productive uses, it should recognize its responsibility to follow policies that will generate sufficient new capital to support such endeavors.

An example of the dimensions of the problem, in regard to both capital availability and use, is the troubled steel industry. The average age of American steel producing facilities was 17.5 years in 1979. This means that the bulk of the American industry has not been able to incorporate the technological advances of the last two decades. During the 1970s, the industry invested $2.9 billion per year. To reindustrialize, the American Iron and Steel Institute estimates that the industry will have to invest $7 billion annually in the 1980s. Of this money, 11.4 per cent will go to meet environmental and health standards. Given current tax laws and a moderate rate of inflation (5 per cent) the AISI estimates that the industry will fall short of its goal by about $25 billion over the decade (in constant 1978 dollars). Higher inflation or higher taxes will cause this shortfall to be even larger.

Impact of Tax Reforms

Six times over the last twenty years (1962, 1964, 1967, 1971, 1975, 1978) there have been minor changes in the tax laws that have been beneficial to capital. After each one, investment increased and the economy enjoyed real economic growth. But three times the "reforms" went the other way (1966, 1969, 1976) increasing the tax burden on capital and slowing its formation and use. If the country is serious about revitalizing the economy, it will have to consistently reduce the obstacles to investment contained in our tax system.

There is a push to do more than this by having the government directly intervene to allocate resources to specific industries. This may be useful in certain cases where an industry is in a transition period and the process needs to be speeded up so that the industry can become competitive again before it loses too large a share of its market. However, such programs must be approached carefully. Whenever government becomes directly involved in an issue, it politicizes that issue. Direct aid programs attract special interests. We do not want an American reindustrialization program to become another exercise in "lemon socialism." Lemon socialism is when resources and capital are poured into lost causes in order to please politically powerful groups. Such practices only create industrial welfare cases which are forever dependent and a drain on the economy. Reindustrialization is meant to strengthen the economy and it can only do this if resources are allo-

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cated efficiently to those projects that have the best chance of success.

Business and Labor Bear Share of Blame

Of course, government policies cannot be blamed for everything wrong with the U.S. economy. Business and labor must bear their share of the responsibility as well. The steel industry in the U.S. waited too long to adopt the basic oxygen furnace while there was no such hesitation on the part of the Japanese. The auto industry failed to realize the long-run effects of high-priced oil on the market for large cars. Corporate management has gradually lost much of its entrepreneurial aggressiveness. The corporation, that genius of American business, the institution that allowed earlier generations to mobilize capital, penetrate markets, develop mass-production technology and engage in long-run planning has proven as vulnerable to bureaucracy and its stagnation effects as every other institution.

Labor, for its part, has pushed for wage increases that have outstripped productivity, thus adding real costs to American products. These costs have to be reflected in higher prices. Labor has also resisted automation, one of the most promising ways to boost output. Labor fears the loss of jobs to the machine, but has overlooked the greater loss of jobs that results when plants close because they can no longer compete.

Historically, increased capital investment has increased employment. This is for the very logical reason that an expanding economy needs more workers than a contracting economy. That is why mass unemployment is associated with depressions and not with periods of prosperity. And since improved machinery is the only way to increase productivity it is also the only sound way to increase a worker's pay.

There may be a short-term displacement of workers from automation, and every effort should be made to provide retraining for any worker so affected. This is the practice in Japan where the goal is to eliminate all unskilled labor. Japanese firms are willing to take the time to retrain their people, and with the benefits of advanced technology they can afford to do so as well. The United States should do no less.

Prospects for Recovery

The United States economy has great residual strength. The U.S., though facing a serious energy problem, is far less dependent on OPEC oil than is Europe or Japan. A serious program to develop alternate energy sources, which should be a part of any reindustrialization scheme, gives the U.S. a realistic chance of solving its problems and

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opening a competitive advantage on its rivals who cannot do the same.

American technology is still the world's leader, even if it does not enjoy the complete dominance it once did. Nuclear and solar technology, aerospace and the revolutionary world of microelectronics are only the vanguard of the American scientific capability. Behind this stands a highly educated population and an educational system which spends billions of dollars annually developing the "human capital" of knowledge.

The framework thus still exists for reindustrializing the country as, indeed, it was industrialized in the first place. What is needed is a more enlightened allocation of resources to support the effort and a determination to see it through.

IDEAS ON LIBERTY

The Growth Objective

ECONOMIC GROWTH is an objective with which few people could quarrel. It means more useful things to serve the needs and desires of the people. It is what men have always striven for in their individual lives and what economists have always pointed to as the greatest hope for material progress in the future. It is an idea, an aspiration, and a reality as old as human history. Despite the immense obstacles placed in its way by ignorance, superstition, physical violence, and political interference, it has been interrupted only temporarily, because it is a product of human nature and normal human behavior.

In a free society protected against violence and fraud, economic growth is an automatic process. It takes place as a result of the desire of individuals to better the material condition of themselves and their families. In this endeavor, people save, invest, devise new and better tools, invent new products and new processes, and employ other people in order to operate more efficiently and on a larger scale. In this respect, individual proprietors and corporations behave in essentially the same way. Under the spur of competition and the profit motive, they strive constantly to produce more and better products at a lower cost. The result is economic growth.

From *The Guaranty Survey*, March 1959

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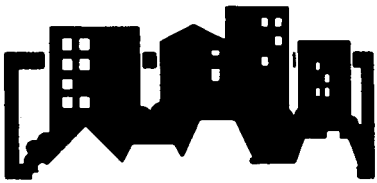
Edward C. Facey



ZONING LAWS

ALL men on earth are ceaselessly striving to substitute more suitable conditions, as they view them, for the ones *currently* confronting them. They trade means for ends because they value the ends more than they do the means.

A land developer expends means, hundreds of thousands of dollars, acquires a portion of land and constructs a department store or an apartment block. He has decided to do this because he anticipates that the proceeds from the store or apartments will be greater than the sums he expends so as to make the chosen venture worth his while. In the process the real estate developer must bring forward apartments or store products that *his fellow men will appreciate and pay money for;* otherwise, "all is lost." And all across society other persons are, in turn, determining what is the best use (end) now for *their* properties (which are their means to happiness) so that the difference between the value of the ends they seek and the means they employ will be the greatest and will advance them the farthest on the road to happiness.

Enterprisers—and we are all enterprisers in determining where to place our labor and land—are careful to avoid loss. An enterpriser using his land for a bookstore, when a grocery store might have done better, may suffer the loss of his property by bankruptcy. However, when he anticipates consumer preference well and consumers eagerly respond to his offerings, he begins to expand his business. He may have orders for his products from far and near. He bids for laborers to work for him. He buys equipment. Other enterprisers, noting his outstanding financial success, are enticed to buy lands to set up enterprises similar to his. Still more products of this nature are brought to the public and the price of the product is reduced. Soon there may no longer be enough return to warrant still further expansion or the rearing of new business structures for this business; capital, land and labor will no longer be withdrawn from other possible uses.

In the market the land and property owner in business to serve must

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"love his neighbor as himself." If he does not serve his neighbor he, himself, cannot succeed.

In a free market society the land will be assigned to those ends highest in the esteem of the owners in relation to their costs. If a land is in residential use then an owner might value that use more than the $40,000 he expends to get possession of the property. If another person should offer him $50,000 for the property, planning to make another use, then the owner might decide to take the $50,000 and move somewhere else, his place being taken by someone who values the property more than $50,000. All involved prosper.

A Vital City

A city can be seen to expand in this manner. A former home may be converted into a tenement building or a storehouse. Jane Jacobs in her book *The Death and Life of Great American Cities* acknowledges the wondrous diversity in the variation of uses in a vital city. She notes buildings in various states of age with old buildings being acquired for businesses just starting out or for businesses with low clienteles, such as bookstores, bars, foreign restaurants. On the other hand, she sees other more successful businesses able to expand into newer structures (chain stores, chain restaurants) and able to afford the higher rents that go with these new buildings. In this way the customers of the city street get a variety of goods to choose from at stores serving many different tastes and preferences.

To plan the enterprise of a community is beyond the knowledge of any one person. How each part fits in with the other parts takes wisdom and planning, feasibility studies and surveys, and, perhaps, a call for Divine guidance as each individual enterpriser sets down his structure on a portion of one side of a street. The business may succeed and it may not. If it does, the profit seeker will cultivate it with care and it will become an established and valuable addition to the community. If it does not, then the property may have to be redirected by someone to a more satisfactory use.

Diversity of Use

In the market there will be separation as well as diversity of use. Gasoline stations will not locate in the interior of a residential section because there is little business for them there. They will be found, instead, at strategic locations confronting major thoroughfares. Heavy industries that emit sounds or odors will not seek sites near residences. Junk yards will be found in remote or low valued sites; they cannot compete in successful city districts notes Jane Jacobs:

> Deadening and space taking low economic uses like junk yards and used-car

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lots grow like pigweed in spots which are already uncultivated and unsuccessful. They sprout in places that have low concentrations of foot traffic, too little surrounding magnetism and no high-value competition for space.[1]

These are some of the evolutions which may be seen in a free society where persons' rights are respected and where the persons are free ever to strive for more well-being and an improved state in life. Now, let us see what happens when the politicians intervene.

Eminent Domain and Zoning

When I talk of the politicians I refer to people who use the political means of acquiring wealth. The political means, according to the sociologist Franz Oppenheimer in his book *The State* would be the acquiring of another man's property by expropriation. The most easily noted instance of this is taxation. Another instance of it is eminent domain.

Objectors might say that, while with eminent domain the person's property is taken for public use, he *is* provided with just compensation. I would quarrel with that in that first, the government, not the original owner, decides the compensation and second, the government commits a new aggression when it confiscates the funds to make "retribution" for the previous invasion. And, thus, another compensation should be made to requite the second fellow's loss . . . and, thus, a third would be confiscated and so on ad infinitum.

Still, eminent domain is a rather costly business. Taxation is not destined to bring hosannahs. Political planners using urban renewal with its condemnations and resales have found this very expensive. The beauty of zoning, from the political planners' point of view, is to move to their ends *without the cost* of eminent domain and its "just" compensation. Without zoning the political planners are severely handicapped. This is glimpsed by Linowes and Allensworth in *The Politics of Land Use*. They write:

> . . . zoning *is* planning—that is, it represents the reality of planning. Communities do not really plan at all; they just zone. . . The plan . . . is the outercover; zoning represents the reality of the situation. . .
>
> Zoning determines the basic pattern of development in the community, and subdivision controls must work within the general frame established by zoning. . . Once the zoning ordinance is adopted and applied, the character of community development is set and cannot be changed without a change of zoning. . .
>
> Zoning will have to be tapped by anyone interested in molding land-use patterns, no matter what his objectives might be.[2]

For those persons who think that men still have their property rights under zoning, let me cite an opinion by Justice Stephen J. Field in the Munn vs. Illinois case:

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The same liberal construction which is required for the protection of life and liberty in all particulars in which life and liberty are of any value, should be applied to the protection of private property. If the legislature of a State, under pretense of providing for the public good, or for any reason, can determine, against the consent of the owner, the uses to which private property shall be devoted, or the prices which the owner shall receive for its uses, it can deprive him of the property as completely as by a special act for its confiscation or destruction. If, for instance, the owner is prohibited from using his building for the purposes for which it was designed (and, one might add, for which the owner would like it designed) it is of little consequence that he is permitted to retain the title and possession. . .[3]

Social Effects of Zoning

The results of zoning in practice for the American market have been striking. The zoners, for example, with their love for single family dwellings and homogeneous use districts have spread the population out into the countryside. This has led to more road travel for the working man *and* his wife just to get through the day. The government has aided this with tax-supported highways (which has added unnecessarily to the pollutant emissions coming from automobiles). Two cases are cited by John C. Sparks in his article "Zoned or Owned?":

> . . . zoning ordinances which prohibited buildings of more than thirteen stories in . . . Los Angeles . . . (and) Washington . . . (Robert A.) Futterman contends that as a result of such restriction it is impossible to develop sufficient downtown work population density to support a rapid transit system. Hence, the automobile overtaxes the highway and street facilities.[4]

Without the markets many businesses would not move into the thinly settled districts even if they were allowed. These districts do not have density of use, they do not have shoppers, sight-seers, browsers, people walking to and from work, people coming cross district to specialty shops. And so, instead, mothers get into their cars and drive long distances to shopping centers. Teenagers get into their cars to go where there is excitement. Fathers get into their cars to go to work. All find it necessary to leave their home territories and enter "foreign" lands.

In our history, according to Raymond Buker, "the cities, towns and rural hamlets of our nation have developed as *integrated* neighborhoods, where people lived close to the stores or factories where they worked. These have been the thriving, happy communities where people visited at the corner groceries and the village stores. They gathered with their neighbors to enjoy good times together and to help each other out in time of trouble. Also these people did a good job of policing themselves because it wasn't

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necessary for them and their young people to travel far outside their own neighborhood."[5]

The zoners have induced many areas to become monotonous with their single use requirement, and with their same lot size, same setbacks, same side, front and back yard requirements. Linowes and Allensworth write:

> Zoning seems to be especially well designed to assure the misuse of land; it promotes sameness and a routine monotony unequalled in the history of man . . . the endless rows of look-alike houses dotting the outlying metropolitan landscape . . . the absence of variety does not permit a proper blending of development styles into the environment.
>
> One might argue that this pattern is dictated by builders who by constructing the same house time and again or by using a few standard models can build at economies of scale . . . So long as zoning requires one house per lot and permits nothing else the building industry will work for the greatest uniformity possible, saving on construction costs so as to be able to charge lower prices and thereby attract the broadest possible segment of the home-buying market. Thus builders and developers cannot be held entirely responsible for the condition of our suburban areas. Their actions are strictly regulated and constrained by local government, especially by zoning.[6]

Political Corruption?

When the political planners come to influence where commercial sites and housing projects are to be allowed they become subject to pressures for placing them here instead of there. With the changing forces of the market what was useful for residential in one time period becomes more useful as commercial in the next. Landowners ply the zoning commission with arguments hoping that the members of the commission will allow them to move from a less valuable use to a more valuable one. Will they be allowed? They may or they may not. Some will be glad and some will be sad.

The establishment of more governmental bureaus, more regulatory bodies at a time when the newspapers tell us time after time of the opportunity for and the use of the political positions as means to political privilege and favor is most discouraging. "Reports persist," says the National Taxpayer Union's *Dollars & Sense* (September, 1972) of campaign contributions being "suggested" to businessmen otherwise they will face enforcement of the environment protection administration's provisions. And what of zoning? Might not a few favors delivered to members of the commission studying a special use permit, or discussing a use variance, be helpful? Evidence shows they have and indicates they will continue to be helpful.

Bernard Siegan was told by an investor in real estate that a more appropriate title for his book, *Land*

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Use Without Zoning, would have been Goodbye Graft. Siegan cites the often fine distinctions between zoning districts and the possibility of dressing up "most any decision on the basis of some 'pure' planning principles." He says:

> It is most distressing to speculate how many major developments have come about only as the result of the payment of graft or fees to certain parties. . . .
>
> Dennis O'Harrow known to many as "Mr. Planner," now deceased and formerly executive director of the American Society of Planning Officials, once said at an annual convention of the society that in too many instances zoning has failed because it has become a "marketable commodity." He quoted a planning official who assured him that "you can buy with money any kind of zoning you want in half the communities of the United States." There is of course, no way of investigating or validating the allegation, but that it was cited by one of the most knowledgeable persons in the country on zoning makes it difficult to dismiss.[7]

Do not mistake me! I am not hereby entering a plea for stricter enforcement of the codes plus a bureau to be set up to supervise and prevent tribute taking by the officials. I agree with Siegan that tougher enforcement would be *worse* and that at least with the graft it is possible for some enterprises to make their way through the regulations rather than be stopped entirely. The answer to *this* problem is repeal of the zoning ordinances!

Other Consequences of Zoning: Locking Out the Competition

Siegan refers to other problems with zoning. The planners find it necessary to make suggestions in the private development or their (the planners') size requirement may call for more costs than otherwise would be the case. The zoners' prevention of multifamily units will put pressures on rents and lead to a shortage of housing. This can mean poor quality service on the part of those multifamily unit owners in the permissible districts, who do not have to worry about competition from landlords in nearby districts because the latter have been zoned out.

The same can be said of shopping centers. Their competitors are zoned out so as to make the shopping center feasible. Siegan is aware of this. He cites the anti-monopoly tradition in the United States, then compares it with the practice of zoning which promotes monopoly. A reviewer of Siegan's book has written:

> If several real estate developers agreed together to restrict the number of apartment buildings in a community so as to give themselves a monopoly advantage, the public would be scandalized. But if these same developers were to go to the local zoning board and suggest that good urban planning, protection of property values, (whose? theirs?) and preservation of the existing pattern of community life called for such restrictions, then this

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would be civic responsibility of a high order and applauded by all right-thinking people. This is because we persist in thinking that monopoly is bad but zoning is good. Tunnel vision like this keeps us from seeing zoning for what it is—an agency of monopoly and government granted private advantage.[8]

Summary and Conclusion

In this time of crisis we need to throw off the costly restraints that government is putting on the productive forces of America. Free men working in the free market can bring the goods forward where they are wanted, when they are wanted and to the extent they are wanted. Politicians are not qualified to make decisions on land development because they are subject to forces other than economic. The political planners are buffeted by constituents, by homeowners and land developers, by political persons and other reformers outside the district where the developing is to be done. These planners will find it necessary to compromise amidst these pressures and, when they do, they will really satisfy no one.

The most qualified persons to develop the land toward socially desirable uses are the owners. Sure they make mistakes, but, unlike the politician, they have investments at stake so they will be careful to avoid mistakes. And, if they err, they will use the experience to do better next time. With opportunity open to them to fulfill demands wherever such demands may appear, they will provide an ever greater array of goods and services that will give us a land of plenty. And, in the process, we will all be free.

But we need planning, say the zoners. Indeed we do. Dr. Ludwig von Mises put the issue most clearly in these words: "The alternative is not plan or no plan. The question is whose planning? Should each member of society plan for himself, or should a benevolent government alone plan for them all? The issue is *. . . autonomous action of each individual versus the exclusive action of the government. It is freedom versus government omnipotence.*"[9]

—FOOTNOTES—

[1]*The Death and Life of Great American Cities* (New York: Random House, 1961), pp. 230-231.

[2](New York: Praeger Publishers, 1973), pp. 66-67.

[3]94 U.S., 113 (1877).

[4]*Essays on Liberty* (Irvington-on-Hudson, New York: Foundation for Economic Education, Inc., 1965), XII, p. 114.

[5]*Cliches of Zoning* (Leaf River, Illinois, 1970), p. 2. Emphasis added.

[6]*The Politics of Land Use,* pp. 74, 75.

[7]Bernard Siegan, *Land Use Without Zoning* (Lexington, Massachusetts: D. C. Heath and Co., 1972), p. 196.

[8]*Law & Liberty* (Menlo Park, California: Institute for Humane Studies), vol. I, no. 2, p. 8.

[9]*Human Action* (New Haven: Yale University Press, 1949), p. 726.

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Economic Liberties and the Constitution

THE first assignment I had from *Fortune* magazine in the mid-Nineteen Thirties was to do a story on the "nine old men" of the Supreme Court. The question of human rights versus property rights was then on everyone's mind. If you were to suggest that the right to own property was pre-eminently a human right, you were obviously influenced by "reactionary" thinkers such as Irving Babbitt or Paul Elmer More. You were also, in Franklin D. Roosevelt's phraseology, a "horse and buggy" thinker.

The judicial heroes of the day in the early Nineteen Thirties were the great "dissenters," Holmes and Brandeis. Sometimes Harlan Stone went with them. The old stalwarts—Van Devanter, McReynolds, Butler and Sutherland—were considered anachronisms. When I visited Professor Felix Frankfurter at Harvard to talk about the court, he said sarcastically of Sutherland that you couldn't get blood from a turnip.

Now, forty-five years later, Bernard H. Siegan, who teaches law and economics at the University of San Diego School of Law, comes along with a book, *Economic Liberties and the Constitution* (University of Chicago Press, 5801 S. Ellis Ave., Chicago, Illinois 60637, 383 pp., $19.50), that reverses the dictum of much "liberal" history. The old "reactionaries" turn out to be the true liberals. McReynolds in particular emerges as something more than the crusty "aginner" of the New Deal imagination.

What Siegan has done is to deal with Supreme Court history in the light of what the Founding Fathers intended. They believed in Natural Rights philosophy; they read Coke and Blackstone, and were cognizant of the claims of "natural law" theorists that "positive," or enacted, law should go along with fundamentals that were ingrained in the universe and the nature of man.

Economic liberties were protected

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in the Constitution, with a guarantee that property could not be seized without just compensation. And, in accordance with the Common Law and traditions going back to Magna Carta, the deprivation of "life, liberty and property without due process of law" made judicial review an absolute necessity in a check-and-balance system. People believed in the "law of the land," and felt safe from ex post facto rulings that would impair the obligation of contracts.

"Due process" was always a nebulous concept to the layman, and the phrase, "substantive due process," doesn't add much to clarification. But "due process" can be taken to mean that legal decisions should not depart from constitutional intention. Before the Civil War the Supreme Court held broadly to Chief Justice Marshall's defense of freedom of contract. "Due process" was affirmed in the Fourteenth Amendment. The legal battles of the late Nineteenth and early Twentieth centuries involved conflicting interpretations of "public needs," and some of the justices whose reasoning is analyzed by Siegan must seem inconsistent when questions of health in bakery shops, for instance, shade off into questions of mere unpleasantness.

The swing in sentiment that resulted in the "liberal" distinction between "human rights" that are more or less absolute and "economic rights" that need not be upheld can be charted by reference to two cases. In one, *New State Ice Co. v. Liebman,* the old dispensation hung on; in the other, *Nebbia v. New York,* we see what Siegan calls the "approaching end of economic due process."

New State Ice Co. v. Liebman involved the liberty of businessmen to enter an established market. The Oklahoma legislature had declared that the manufacture and sale of ice was a "public business," and hence subject to regulation. An agency was given wide discretion in issuing certificates to enter the ice business. When an independent ice man challenged the State of Oklahoma, the issue went ultimately to the Supreme Court. Sutherland, speaking for a majority of six, upheld the right of free market entry where there were no considerations of damage to the public health and safety. But Brandeis, in a famous dissent, argued that the Oklahoma statute was not arbitrary. There could be, he said, a natural monopoly in the ice-making business if competition were unchecked. There could be "needless waste." Anyway, the State of Oklahoma should be accorded the right to "experiment."

The importance of the Brandeis dissent was that it foreshadowed national policy in establishing the Civil Aeronautics Board and other agencies designed to control and license

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entries in a whole host of fields. In *Nebbia v. New York* the Brandeis "minority" view became the majority opinion. By a five-to-four decision the Supreme Court upheld the conviction of a small Rochester, New York, storekeeper for the "crime" of selling two bottles of milk and a loaf of bread for eighteen cents. This was in defiance of the milk control law. Justice Roberts, speaking for the majority, ruled that it was not unreasonable for New York to enact legislation that deprived Nebbia of the liberty to sell at prices of his own choosing. McReynolds, speaking this time for a minority that included Van Devanter, Sutherland and Butler, questioned the wisdom of interfering with the economic rights of little grocers—and also of "twelve million consumers to buy a necessity of life in an open market."

Siegan says that the prose in "McReynolds' dissent . . . is scarcely in keeping with the image of old-guard reactionaries and those who tread on the rights of the masses." Why, so Siegan asks, "have so many legal commentators missed the point of economic due process? Were Holmes and Brandeis realiy the heroes of that Court?"

Since the New Deal the Court has followed a general pattern of according "due process" protection to economic issues only when they affect the First Amendment. Beyond that, the Court has tended to reject judicial review of government restraints on economic liberty. Siegan thinks the time has come for a reversal of current policy. Judicial review, he says, is firmly rooted in the Constitution. The judiciary has "no authority to eliminate constitutional protection for economic liberties." Congress and the State legislatures, being subject to pressures from small groups seeking ideological favors, can't be trusted with the "final authority" in socio-economic matters. The Court should rehabilitate our Constitutional principles and bring an end to the substitution of political competition for the economic competition that protected the consumer before the world turned over on its axis in 1933.

THOUGHTS RULE THE WORLD
by Leonard E. Read
(The Foundation for Economic Education, Irvington-on-Hudson, N.Y. 10533), 1981
128 pages ■ $6.00 cloth

Reviewed by Perry E. Gresham, President Emeritus and Distinguished Professor, Bethany College.

LEONARD E. READ has produced his own two-foot shelf of books. *Thoughts Rule the World* is number twenty-seven. This handsomely bound new volume has all of the sparkle and charm of his earlier books with the

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added dimension of experience and wisdom which is reserved for what Norman Ream calls "the chronologically gifted."

Napoleon, dejected and in exile, his dream of world conquest faded, reflected on his experience and said — "the pen is mightier than the sword." Had he thought still more deeply he might have arrived at the conclusion that the pen is nothing without thought, and that thought truly rules the world. The world of Leonard Read is made up of learning, thinking and writing about Liberty. His thoughts are not intended for world conquest. He has spent his life in a relentless effort to know the truth and to share his discoveries with those who come to him with seeking minds.

Those who are out for a polemic to correct the left-leaning liberals will find no encouragement in this book. Read is no contentious debater. He bears no relationship to the young philosophers of Plato's *Republic* who were described as "like puppy dogs who bite and tear one another, without a true vision of truth." Read believes that one who loves liberty must study it, live it and let the example of his integrity and rectitude draw to him those who would learn.

The Sage of Irvington has illuminated one hundred eighteen pages with a most amazing range of pertinent quotations. He begins with his old friend, Ralph Waldo Emerson, and concludes with Oliver Goldsmith. In between is a startling array of philosophers, economists, poets, emperors and presidents with a spate of scientists and saints for good measure. The intellectual companions of Leonard Read are from all ages and all places.

While this book is made up of twenty-six brief essays on liberty, it is not without an underlying unity; nor is it devoid of intellectual rigor. Herein the reader finds "logical reasoning from a sound premise." Answers to important questions are throughout the book. The proper role of government, the miracle of the market, the failure of coercion, the creative power of free individuals and many other truths become self-evident as the book proceeds.

Now and again an insight comes through as an almost poetic image. Take for example the observation: "When little men cast long shadows, the sun is setting on a civilization." The author transcends again the owl wings of economic prose and flies on eagle wings of poesy as he writes: "As to the glory and sublimity of truth, all is mystery."

Few moral philosophers have given adequate notice to the relationship between manners and morals. Read devotes a wise chapter to this very subject and comes out with a conclusion which is both persuasive and brightened with hope. "True, good manners lead to good morals. When

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enough individuals thus blest reason justly from a sound premise, Liberty will again prevail!"

Leonard Read is not only a thinker, writer, teacher and executive. He is also a man of great faith. He sees the liberty which rang out from the Liberty Bell as secured by the fact that the Declaration invoked the rule of God rather than the rule of man. Free individuals under God are not easily subjected to the tyranny of command government. The chapter, "Goodness: The First Step to Freedom" views creativity as the hope for humanity, and goodness as participation in the Creation. John Milton's *Areopagitica* is called in to distinguish between liberty and license. "None can love freedom heartily, but good men, the rest love not freedom, but license." Individual creativity is regarded as goodness which is to be guarded with religious devotion.

Grover Cleveland is seldom quoted. Only Read would find an epochal decision in an obscure administration. Cleveland, on principle and against his political self-interest, refused to sign a bill that would aid some Texas farmers in a time of distress, but thereby turn charity over to the government. Cleveland saw the responsibility for human survival and economic well-being as individual responsibility and voluntary sharing rather than as an opportunity for politicians and bureaucrats to buy votes and power with other people's money. Read commends Cleveland for understanding the role of government as that of "keeping the peace and invoking a common justice." This good press for Cleveland makes me proud of my kinsman, Walter Q. Gresham, who was his Secretary of State.

The book ranges over many fascinating landscapes of the mind. A chapter is devoted to mental growth, another to mutual obligations. The problem of ends and means comes in for full consideration. Conscience, a persistent problem in moral philosophy, gets a new insight and a new definition. Long-range goals for a creative and effective life are brought under the spell of Lecomte du Noüy, Thomas Carlyle and Immanuel Kant.

The story of the Stoic philosopher, Epictetus, is truly inspiring as related in chapter twenty-one. Here is a little Greek slave with a crippled leg derived from the cruelty of his master, who nevertheless lives with so much joy and wisdom that the world made pilgrimage to his obscure home for information and insight. Read calls this "the law of attraction" and a wise formula for anyone who aspires to interest people in the philosophy of freedom.

"Each of us is the architect of his own character," says Leonard Read, and with this remark his students are on their own. Individual freedom is the only freedom that finally matters and individual responsibil-

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ity is a concomitant. Governments cannot be creative. Only individuals can bring the insights and innovations which remake the earth and the societies which inhabit it. This does not rule out the important factor of voluntary cooperation. Freedom of association is a fundamental liberty, but coercive association can be tyrannical.

The obnoxious word "mandatory" has no place in this volume. Those who try to impose their wills on others by force are not hated and they are not denounced, but they are invited to consider the folly and indignity of their beliefs and practices. Everyone is invited to study the freedom way of life. The bungling mail service by government, compared with the effective transmission of voice by private industry, is illustrative of the advantages of free enterprise.

Many students of political economy have overlooked the importance of envy and covetousness in social and political affairs. Not so Leonard Read who writes, "We should note the extent to which this 'guiltless' taking of property by coercion is rationalized. Accomplices, bearing such titles as philosophers and economists, rise to the occasion: they explain how the popular depredations are good for everyone, even the looted. Thus, we find that covetousness, unchecked in the individual, lies at the root of the decline and fall of nations and civilizations." The cure for envy and covetousness lies with the attitude of each individual. The person who counts his blessings cannot covet.

Another aspect of the freedom way of life which is frequently overlooked is the fact that free people have more fun. Those who are zealous for mandatory controls on everything are grim and fierce. They miss the excitement and pleasure of free choice. Read sums up this idea with a one-liner: "Have fun, or forget it!"

Leonard E. Read is himself the greatest of his books. His long life of dedication to liberty is the exemplification of all he writes. He not only praises consistency but lives it. He honors humility and admits his ignorance and fallibility. He thinks truth and lives love. Whitehead wrote, "Philosophy begins in wonder and ends in wonder." By that definition Read is a true philosopher, for he has a sense of the numinous which he calls "mystery." The Foundation he has created is a quiet center for the study of liberty which draws thinkers from all over the world. He has not yielded to despair nor failed to find joy in the search for truth and freedom.

The final chapter of *Thoughts Rule the World* is "Good News." The opening quote for the essay is the author's own. "Experience has convinced me that there is a thousand

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times more goodness, wisdom and love in the world than men imagine." This is no mere optimism. Read has the critical eye to observe and the good judgment to avoid unwarranted assertions. There is a quality of hope and happiness in every sentence. The book is good news indeed!

A TIME FOR ACTION
by William E. Simon
(Reader's Digest Press, 200 Park Avenue, New York, N.Y. 10017), 1980
$2.75 paperback

Reviewed by Timothy G. Nash

THIS latest contribution from the feisty former Secretary of the Treasury—briefer but just as potent as his best-selling *A Time for Truth*—is a compelling indictment of moral, political, and economic decay. This decay is embodied in and promoted by a government run amok—a monstrous bureaucracy which threatens our liberties and our standard of living.

Practically every nook and cranny of the sprawling federal establishment feels Simon's sting in this book—the regulatory agencies, the executive branch, the State Department, and the Congress, to name a few. The "counterculture" which in recent years has dominated that federal establishment has its roots in four critical elements: "the media, the public interest groups and think tanks, the second and third echelons of the bureaucracy, and, increasingly, the courts." Simon argues that an uncomprehending public has allowed these groups to do great damage and that disaster and dictatorship loom ahead if the public fails to regain the vision of America's Founding Fathers.

The new mood in the country may be the beginning of the reawakening which Simon hopes for. Americans are coming to understand that "a government big enough to give you everything you want, is also big enough to take away everything you've got." Americans are also waking up to the fact that in our dangerous world, all the welfarist schemes devisable will be for nought if government neglects its proper function as a peace-preserving agency for defense.

In the final chapter, Simon prescribes solutions to the problems he has described. They include balancing the federal spending, reducing taxes, scaling down money supply growth, harnessing the bureaucracy, and restoring a strong defense posture. That may sound like a broken record to readers here, but as Simon says it, it sure doesn't.

A Time for Action is packed with facts and figures drawn from Simon's experience in Washington and

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seasoned by his commitment to principles. It is the stuff from which budget-cutters and statesmen are made. For every freedom believer who wants ammunition in the campaign to stave off tyranny, this is one arsenal which should not be overlooked.

THE POLITICAL ECONOMY OF FEDERAL GOVERNMENT GROWTH: 1959–1978

by James T. Bennett and Manuel H. Johnson
(Center for Education and Research in Free Enterprise, Texas A&M University, College Station, Texas 77843)
145 pages ■ $12.95 cloth; $4.95 paperback

Reviewed by Harold C. Gordon, Director of Education for the National Federation of Independent Business

BENNETT AND JOHNSON, economists at George Mason University, reveal that official statistics often understate the true burden of government. Agency budgets, for example, do not take account of the enormous sums that businesses must spend in order to comply with regulations. Nor are future pensions, loan guarantees, and other long-term or contingent obligations reflected in current expenditures, despite the fact that they are mounting rapidly.

Employment figures are equally misleading. Thousands of full-time personnel are reclassified part-time every year to circumvent limits on hiring. As many as *eight million* more individuals—contractors, consultants, and state and local employees—depend on federal grants and programs for their paychecks.

There have been important qualitative changes as well. During the twenty-year period examined by Bennett and Johnson, policymakers at GS-13 to GS-15 levels more than tripled in strength. This is "the bureaucracy," and it has a vested interest in its own expansion.

The rational self-interest of any other actor in the political process is liable to change; that of the bureaucrat is immutable. Civil service protections have made it virtually impossible to fire him, and he gets no rewards for being efficient, economical, or productive. On the contrary, his promotions, salary increases, and status depend almost entirely on his multiplying the number of people working under him.

The authors build a persuasive case for regarding the bureaucrat as the real villain in the piece. They examine his skill in cultivating other political actors and playing them off against each other, his shrewd manipulation of "crises," his use of the media, and (this is increasingly important) his clout at the polls. At a time when low voter turnouts are

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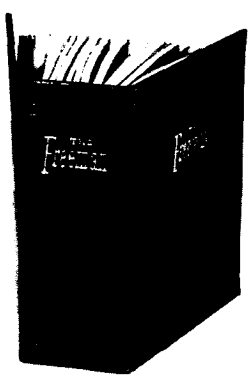
common, government workers are one bloc that can always be counted on to show up in force.

The authors' analysis is also appealing because it suggests a possible solution. If the bureaucrat is the prime mover for growth because the existing incentive system has programmed him for that role, restructuring the system might well improve his behavior. Bennett and Johnson suggest a number of changes that could be made in this respect, utilizing both the carrot and the stick. Promotions and salary increases should be tied to job performance, not to the number of underlings. Discipline and removal procedures should be simplified. In addition, the authors propose that a "tax" be levied on the budgets of agencies that create paperwork for the private sector. If an agency's appropriations were liable to be reduced every time it introduced another form, there would be less unnecessary paperwork.

In short, an admirable primer on government growth. Short, pithy, and illuminating, it ought to be required reading for every one of Mr. Reagan's budget cutters.



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